

REQUEST FOR PROPOSAL
ISSUED BY THE BOARD OF TRUSTEES
of
J.B. THOMAS HOSPITAL

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J. B. Thomas Hospital

15 King Street Peabody, Massachusetts 01960
(508) 531-2900

February 14, 1992

REQUEST FOR PROPOSAL

ISSUED BY THE BOARD OF TRUSTEES of J.B. THOMAS HOSPITAL

The Board of Trustees of J.B. Thomas Hospital issues this Request for Proposal (RFP) to parties who have expressed their interest in the restructuring of J.B. Thomas Hospital. By issuing this RFP, the Trustees have initiated a process of reviewing options for the continuation of health care services in the City of Peabody.

J.B. Thomas Hospital is an 82 bed municipally owned general acute care hospital located in the City of Peabody, Massachusetts. The Hospital has a long history of service to the residents of Peabody and surrounding communities, and has operated at the present location since its founding in the latter part of the nineteenth century. The Hospital is owned by the City of Peabody, and is governed by a 15 member board of trustees that is appointed by the Mayor of Peabody. Since 1987, the Hospital has been managed pursuant to a management agreement with Salem Hospital. The Hospital has a three year accreditation from the Joint Commission on Accreditation of Healthcare Organizations.

As a municipal hospital, J.B. Thomas Hospital's operating deficits are subsidized by the City. Although the City has provided deficit financing when needed in the past, the City of Peabody's future ability to provide the Hospital with ongoing financial support will be restricted by the fiscal constraints that now affect most Massachusetts municipalities. After consultation with the Mayor, the Board of Trustees has concluded that the best interests of the Hospital and the City will be served by initiating this RFP process to identify options for alternative arrangements for providing health care services at J.B. Thomas Hospital. The Trustees' preferred option is a continuation of acute services. The RFP process is intended to result in evaluation of the responses by the Trustees, followed by the Trustees' recommendation to the Mayor, on or about May 1, 1992.

This RFP document includes information about the RFP process, the elements required for the submission of a complete response, and the past and present operations of J.B. Thomas Hospital. Additional financial and operational information about J.B. Thomas Hospital, including copies of regulatory reports for the last three fiscal years will be made available upon request.

It is the intent of the Trustees to develop other information simultaneously with the RFP process. This will include an environmental site assessment, a site survey, and a commitment to provide title insurance. The Trustees will make this and other information considered necessary for the development of responses available to potential respondents as early in the RFP process as possible. The Trustees believe the information provided in, and pursuant to, this RFP to be accurate. However, no representations and/or warranties are made as to the accuracy or completeness of the information, or to the absence of any events occurring subsequent to the date of any information that would alter the substance or interpretation of the information.

OBJECTIVES OF RFP PROCESS

The Trustees' objectives in undertaking this RFP process may be summarized as follows:

- To continue to serve the health care needs of the residents of Peabody;
- To identify alternative arrangements for providing health care services at J.B. Thomas Hospital; the Trustees' preference is for the continuation of acute care services at the Hospital, although proposals that include only non-acute health care services are expected and encouraged;
- To determine the full range of financial and programmatic options for the use of the Hospital, including any options that do not encompass a continuation of health services; although the Trustees' preference, as stated above, is for the continuation of health care services, proposals that consist of non-health care uses of the Hospital are expected and will be accepted for consideration;
- To achieve a smooth transition of the Hospital to the successful respondent, and in doing so, to provide opportunities for continuity of employment for the Hospital's work force;
- To minimize or eliminate the need for the City of Peabody to subsidize future hospital or other health care services provided at J.B. Thomas Hospital, and to generate funds through lease payments or sale proceeds that will offset the future costs of Hospital related obligations already incurred by the City.



In preparing proposals to accomplish these objectives, respondents are encouraged to demonstrate initiative and creativity in both the program design and financial components of their proposals. The Trustees wish to emphasize that proposals incorporating acute care services will be given priority. However, this RFP document does not restrict the proposed uses of the Hospital beyond the restrictions contained in the zoning ordinance.

OVERVIEW of J.B. THOMAS HOSPITAL

The following information represents an overview of J.B. Thomas Hospital's programs, patients, medical staff, employees, financial status, and organizational structure.

Characteristics of Service Area

The total population in Peabody, and on the North Shore in general, has shown no significant change over the past twenty years. However, the portion of the population of Peabody that is over 65 years of age has steadily increased in the past ten years, from 11 percent in 1980 to 15 percent in 1991. Approximately 16 percent of the population is 14 years of age or under, 47 percent is in the range of 15 to 44 years of age, and 22 percent is in the range of 45 to 64 years of age. In general, the population characteristics of Peabody are similar to those of other communities in the North Shore area.

The Hospital draws approximately 90 percent of its discharges from the communities of Peabody, Lynn, Salem, Lynnfield, and Danvers. Approximately 70 percent of the Hospital's total 1990 discharges were residents of Peabody, and approximately 6.5 percent were residents of Lynn. Other North Shore communities each comprise less than five percent of the Hospital's total 1990 discharges.

In 1990, 7,053 inpatient hospital discharges were generated by residents of Peabody, of which 1,339 (19 percent) were discharges from J.B. Thomas Hospital. The percentage of total Peabody discharges attributable to J.B. Thomas Hospital ranked second among hospitals on the North Shore. (Attachment A)

Acute care hospitals in the service area of J.B. Thomas Hospital include Atlanticare Medical Center, located in Lynn; Beverly Hospital, located in Beverly; and Salem Hospital, located in Salem, Massachusetts.



These hospitals and J.B. Thomas Hospital provide approximately 75 percent of the inpatient acute services to residents of Peabody. The remaining 25 percent of Peabody's market share is distributed among a variety of hospitals in other suburban areas and Boston.

Programs and Services

The Hospital provides the following programs and services to its service population: (Attachment B)

<u>Description</u>	<u>1991 Volume</u>
3 Inpatient Medical/Surgical Units (74 bed capacity, 51 currently licensed)	14,820 Patient Days
8 Bed Medical/Surgical and Cardiac Intensive Care Unit	1,578 Patient Days
4 Room Surgical Suite	461 Inpatient Procedures
One Day Surgery Unit	639 Outpatient Procedures
Emergency Services	14,355 Visits
Other Outpatient Visits	2,523 Visits
Laboratory	159,356 Tests
Radiology	14,580 Exams
Ultrasound	877 Exams
Nuclear Medicine	1,179 Exams
CAT Scan	2,551 Exams
Cardiac Care	8,396 Exams
EEG Services	150 Exams
Physical Therapy	7,052 Treatments
Respiratory Therapy	15,779 Treatments
Hospital Based Home Health Services	21,341 Visits

The Hospital has filed an application for Determination of Need for the conversion of 21 beds to the skilled nursing classification. The application has not yet been acted upon by the Department of Public Health.

The Hospital presently has managed care agreements with Bay State Health Care and US Healthcare.

Medical Staff

The medical staff of J.B. Thomas Hospital consists of 185 physicians. In fiscal year 1991, 73 percent of the Hospital's admissions were attributable to the top 20 admitting physicians on the medical staff. The average age of this group of physicians is 53.

Personnel

J.B. Thomas Hospital has a work force of 343 employees, which equates to 298 full time equivalent (FTE) employees. Of the 298 full time equivalent staff, 289 are employees of the City of Peabody. Seven FTEs are administrative staff who are contracted employees under the terms of the management agreement with Salem Hospital, and two FTEs are contract patient account personnel from Maximum Claims.

There are two collective bargaining units at the Hospital. Both are units of the American Federation of State, County, and Municipal Employees (AFSCME). One of the bargaining units represents 137 professional employees, the other represents 95 non-professional employees. The last contract for each of the bargaining units covered the period October 1, 1989 through September 30, 1990. Since the expiration of those agreements, the unionized employees of the Hospital have been working without a contract.

Financial

The Hospital's audited financial statements for fiscal years ending June 30, 1988 through 1991 are included as Attachment C, and copies of regulatory reports are available by request from Boston Bay Consulting, Inc.

Organizational Structure

As a municipal hospital, J.B. Thomas Hospital is operated as a department of the City of Peabody. The Hospital's enabling



legislation established a fifteen member board of trustees, which is appointed by the Mayor of the City and approved by the City Council. The legislation invests the board of trustees with the authority over the management and control of the Hospital. J.B. Thomas Associates is a separate not-for-profit organization that provides ongoing support to the Hospital through fund raising.

CHARACTERISTICS OF THE PROPERTY

The property referred to in this RFP as J.B. Thomas Hospital consists of approximately 3.2 acres, with the six buildings located thereon, and associated personal property. The preceding are collectively referred to in this section as "the Property".

Location

The Hospital Property is located at 15 King Street, Peabody, Massachusetts. Although primarily a residential district, the Hospital's location is a short distance from Lowell Street, which is a major thoroughfare that connects downtown Peabody with Route 128 and Route 1. Major highways that are located within a three mile radius of the Hospital are Route 128, Route 1, and Interstate 95, the three major north-south roadways in the area. Also within a three mile radius of the Hospital are downtown Peabody, Centennial Park (a major regional industrial park), and the North Shore Shopping Center (one of New England's largest retail and professional office developments). The Hospital is approximately ten minutes from the intersection of Route 128 and Interstate Route 93, and 20 minutes from downtown Boston and the New Hampshire border. (Attachment D)

Description

The Hospital was originally constructed in 1907 with funds bequeathed in the will of Josiah B. Thomas to the City of Peabody for the establishment of a hospital. Since that time, the Hospital has undergone several phases of improvement and expansion. The Hospital now includes six buildings encompassing a total space of approximately 110,000 gross square feet. The square footage, construction date, and general physical description of the Hospital's buildings are summarized as follows: (Attachment E)



<u>Building Name</u>	<u>Constr- uction Date</u>	<u>Size in Gross Sq. Ft.</u>	<u>Description</u>
Smith Building	1973	33,045	Two stories plus basement; Class B concrete, steel, and brick construction
Hingston Building	1963	35,833	Three stories plus basement; Class B concrete, steel, and brick construction
Administration Building	1969	6,438	Two stories plus basement; Class B steel and concrete construction
Chadwick Building and Annex	1907 & 1931	31,460	Chadwick-Two stories plus basement; Timber, steel, and brick construction; Annex-Three stories plus basement Timber, steel, and brick construction
Power House	1919	3,308	One story

The Hospital has an energy savings program that was initiated in 1984 and enhanced in 1987. The program provided for the design, installation, and maintenance of energy saving equipment and the implementation of energy savings practices.

Permitted Uses

The real property is located in a residential area which has an "R-2" zoning designation. Currently, its use as a municipal hospital is permitted as a pre-existing, non-conforming use under the Peabody Zoning Ordinance. The R-2 zoning designation permits single and two family residences, churches, municipal recreation areas, and professional offices located in residences. The City may grant a special permit in an R-2 area for the development of cluster, public and elderly housing, hospital, nursing home and day nursery activities, not-for-profit educational activities, and other municipal activities. The Ordinance states that "any use not enumerated shall be deemed prohibited." Consequently, any other use would require a change in zoning before the use would be permitted.

Authority to Lease or Sell

As the owner of the J.B. Thomas Hospital Property, the City of Peabody has the authority to lease or sell the property. At this time, the City has no stated preference regarding the disposition of the real property by sale or lease. Among lease option proposals, however, preference will be given to longer-term lease arrangements, optimally for no less than ten years. The final decision regarding the disposition of the real property will be left to the approval of the City Council and the Mayor.

It is the opinion of the City of Peabody that this RFP process is not within the scope of the Uniform Procurement Act, Massachusetts General Laws Ch. 30B (1991). If this interpretation is revised, the City will follow the provisions of M.G.L. Ch. 30B, s.16 regarding the disposition of the real property. Notwithstanding the applicability of Ch. 30B, the City of Peabody and the Board of Trustees of J.B. Thomas Hospital are committed to conducting this RFP process with openness and fairness to all interested respondents.

Title, Appraisal, Survey, and Environmental Assessment

In conjunction with the RFP process, the Board of Trustees is securing certain documents to aid the RFP respondents and facilitate implementation of the accepted proposal, if any. The Board will arrange for a survey of the Property and an environmental site assessment. The Board is seeking a commitment for a title insurance policy in an amount not less than the purchase price for any sale of the real property. Copies of these documents will be made available to respondents as soon as possible after they are received by the Board. The Board has commissioned an independent appraisal of the Property for its own purposes. All responses to this RFP are deemed conditional until the Board receives confirmation of the title insurance policy and a positive site assessment.

Legal Opinions

An opinion of due authority and enforceability shall be supplied by the City Solicitor of Peabody at the time of the closing. The City Solicitor will opine as to any other restrictions, obligations, or conditions affecting the acquisition. No other legal opinions will be offered as to the nature, scope, authority, and propriety of any proposed transaction.

CHARACTERISTICS OF THE CITY OF PEABODY

The City of Peabody is located in Essex County, 18 miles north of Boston. It has a population of approximately 47,000, a median family income of approximately \$45,000, and occupies a land area of 16.5 square miles. It is governed by a Mayor and an eleven member City Council, each of which is elected biennially. Aside from the traditional governmental services such as police, fire, and education, the City provides electric services to residents, businesses, and industries through Peabody Municipal Light Plant, a self-supporting service. The City also owns and operates its own water supply and distribution system. Less than one percent of the City's water requirements is provided from outside sources. The water system has a capacity of 10 million gallons per day with present usage being approximately 4 million gallons per day. Sewer services are provided to approximately 93 percent of the City's residential users and essentially all commercial and industrial users through connections to the South Essex Sewerage District.

Industry and Commerce

Peabody is a diversified economic center with commercial trade, services, and manufacturing each representing an important part of the City's economy. Among the products manufactured in Peabody are scientific measuring instruments, computerized medical instruments, pharmaceuticals, athletic footwear, plastics, gelatins for photographic film, and textile dyes. The City has two major industrial parks: the 100 acre Peabody Industrial Park and the 307 acre Centennial Park, both developed by the City. The Peabody Industrial Park is adjacent to Route 128 at the junction of Interstate 95 and is completely occupied. Among the companies located at the Park are Walbar, Inc., Bicknell & Fuller Corp., and Eagle Can Company. The Centennial Park, which is managed by the Peabody Community Development Authority, has complete north/south access to Route 128. A total of \$14.5 million in urban development grants were given to the City to attract developers to the Park and assist with their site development costs. Of the 307 acres in Centennial Park, all available land has been sold. The companies located at the Park include S.S. Pierce, Analogic Corp., McDougall Advertising, Christian Book Distributors, North Shore Health, Xerox, and Precision Metal Products, among other companies. In addition, there is a 250 room Marriott Hotel in the Park. While all available land has been sold, growth continues through existing companies completing expansion projects. Concurrent with industrial and commercial growth, Peabody has experienced substantial growth in the residential area. From 1984 to 1990 over 1,700 residential units were constructed.



Community Development

The City has completed a master plan for the development of approximately 400 acres of industrial land, known as the "Golden Triangle", at the junction of Interstate 95 and Route 128 and Route 1 for the development of additional office and manufacturing space. It is estimated that 2.65 million square feet of such space will be constructed in this area by the year 2005.

In September, 1990, the City completed a \$6 million Urban Systems project in its downtown area. This project included street construction and lighting and safety improvements.

Transportation

Route 128 passes through approximately four miles of the western portion of Peabody. Other major roadways serving the City are Route 1, Route 129, Route 114, and Interstate 95. An estimated \$56 million of highway construction work directly connecting I-95 and Route 128 and providing access to Centennial Park was completed in 1989. Rail freight service is provided by Boston and Maine Railroad. Commuter bus service is available to Boston. The nearby Beverly municipal airport has three runways from 3,500 to 5,000 feet in length. Attachment D includes a map of the greater Boston area showing the location of the highways and their general proximity to J.B. Thomas Hospital.

REQUEST FOR PROPOSAL PROCESS

This RFP is issued by, and under the authority of, the J.B. Thomas Hospital Board of Trustees. The RFP process, consisting of the issuance of this RFP document, the submission of proposals in response to the RFP, the evaluation of proposals, and the recommendation of one or more proposals to the Mayor of Peabody, will adhere as closely as possible to the parameters outlined herein. Any changes or additions to the RFP process shall be made at the sole discretion of the Board of Trustees. The Board of Trustees makes no representations and/or warranties regarding the RFP process, except that it shall be conducted in fairness and good faith.

The ultimate implementation of one proposal, if any, will be an independent decision of the Mayor in conjunction with the City Council.

Except to the degree required by law, the Board of Trustees and the City of Peabody will protect any confidential information supplied in a proposal to the best of their ability. Notwithstanding the foregoing, any and all ideas contained in proposals for use of the Hospital property shall become the property of the Board of Trustees and the City of Peabody, either of which may use or make public such ideas, suggestions, and proposals without limitation.

RFP Working Committee

The Chairman of the Board of Trustees has appointed an ad hoc committee, known as the RFP Working Committee, to oversee the RFP process. The Board has also retained the management consulting firm of Boston Bay Consulting, Inc. and the law firm of Edwards & Angell as members of the RFP Working Committee to advise the Board and to assist in the design and implementation of the RFP process. Data and related support will be provided to the RFP Working Committee by members of the Hospital management team.

It is an issue of the highest priority for the Board of Trustees that the RFP process be open and fair to all prospective respondents. In order to ensure that information associated with the RFP process is disseminated in a manner consistent with those principles, the Board has determined that all questions and requests for information should be coordinated through Kevin F. Smith of Boston Bay Consulting at (508) 531-4000, or Joseph C. Maher, Esq. of Edwards & Angell at (617) 439-4444. Under the terms of the Hospital's management contract with Salem Hospital, certain members of the Hospital's senior management are employees of Salem Hospital. In order to avoid any circumstances in which the objectivity of those individuals could be called into question, respondents are specifically instructed to refrain from addressing requests for information about the RFP process directly to Hospital management.

Schedule

February 14, 1992 RFPs will be issued to all interested parties. As of February 18, supplementary information packages will be available to interested parties by written request to:

Board of Trustees
J.B. Thomas Hospital
c/o Boston Bay Consulting, Inc.
5 Essex Green Drive
Peabody, MA 01960



Each request should state the name and address of the requesting person and/or organization, and should include a check in the amount of \$150, made payable to Boston Bay Consulting, Inc., to offset the costs of reproduction. The Trustees will continue to make the RFP and supplementary information packages available to other parties who express their interest after this date.

February 19 through 28, 1992 Individual tours of the facilities and grounds of the Hospital will be made available by appointment. Respondents who wish to arrange such a tour are asked to contact Boston Bay Consulting, Inc.

February 19 through March 4, 1992 Meetings with individual respondents will be held as requested for the purpose of addressing questions with respect to the RFP process, and the information contained in the RFP document and the supplementary information package.

March 23, 1992 Three copies of each respondent's proposal are due by 5:00 PM at the offices of the Board of Trustees' counsel for the RFP process at the following address:

Edwards & Angell
101 Federal Street
Boston, MA 02110
Attention: Joseph C. Maher, Esq.

March 24 through April 3, 1992 Individual respondents will be given the opportunity of meeting with representatives of the RFP Working Committee to clarify and elaborate upon the information submitted by each respondent in the proposals, and to respond to questions.

March 24 through April 6, 1992 If deemed necessary by the RFP Working Committee, requests for additional information will be issued to some or all respondents. Respondents will be given an opportunity to gather additional data from source documents, tours, meetings, etc. needed to respond to the Committee's request. The Board of Trustees reserves the right to ask one or more respondents to consider and address alternative proposals at this time.

April 13, 1992 Three copies of each respondent's proposal incorporating any additional information requested by the RFP Working Committee are due by 5:00 PM at the offices of Edwards & Angell.

April 14 through April 30, 1992 Evaluation of final proposals will be conducted by the RFP Working Committee, and a recommendation prepared for the full Board of Trustees.



May 1, 1992 After appropriate action, the Board of Trustees will deliver its recommendation to the Mayor of Peabody. The Mayor will announce his decision on the Board's recommendation within approximately 30 days of receipt of the Trustees' recommendation.

CONTENT OF PROPOSALS

Respondents are asked to address the following issues as completely as possible in their proposals. It is the Board's intent to conduct a comparative analysis of all proposals received using the information requested in this section. Full consideration of a respondent's proposal can only be assured if the proposal is deemed complete with respect to the information requested in this section.

Respondent's Organization

Describe the governance, legal form of organization, and principal business activities of the entity submitting the proposal and all organizations to which it is related through common ownership or control. For respondents that are part of a system that consists of more than one legal entity, please include for each entity:

- The year and state of incorporation, and tax status;
- Relationship to the system;
- Membership of the governing body, including the names of officers, directors, members, stockholders;
- Names of senior management personnel;
- Name, location, and principal activities of businesses operated;
- Copies of the last three years' audited financial statements, federal tax returns, and state tax returns for the entity submitting the proposal, and for any other organizations on which the respondent intends to rely for financing.

If the respondent expects to create a new entity for the purpose set forth in the proposal, please provide the above information for the new entity on a projected basis.



Describe the manner in which the proposed use of the Hospital would be integrated into the respondent's existing organizational structure.

Please identify the individual(s) who will serve as the principal representative(s) of the respondent for the RFP process.

Proposed Use of the Land, Buildings,
and Personal Property of J.B. Thomas Hospital

Describe the proposed use of the Property by the respondent. Because the proposed use of the facility will be a key determinant in the Trustees' comparative evaluation of proposals, respondents are urged to be as specific as possible in describing the proposed use. At a minimum, please address the following:

- The nature and scope of any proposed continuation of acute health care services, including emergency services;
- The nature and scope of any proposed continuation of other health care services, including urgent/walk-in care services;
- The scope and timing of any commitments the respondent is willing to provide regarding the continuation of health care services at the Property;
- The specific programs and services being proposed for the Property, with a projected timetable for implementation, and a proposed space plan;
- The expected effect of the proposed use, and any related demolition or construction, on the area surrounding the Hospital in terms of traffic, noise, parking, character of the neighborhood, historical resources, water and sewer resources, etc.;
- The manner in which the proposed use of the Hospital would be integrated into, and is compatible with, the respondent's existing complement of programs and services.

Proposed Structure and Timing of Transaction

Please describe the structure of the transaction by which the respondent proposes to acquire the control and use of the Property. At a minimum, please address the following:



- If the respondent is proposing to lease the Property, describe the proposed length of the lease, the timing and amount or calculation of lease payments, and any other terms or conditions that affect the substance of the proposed lease arrangement;
- If the respondent is proposing to purchase the Property, describe the amount or calculation of the proposed purchase price, and the proposed timing for the payment of the purchase price;
- If the respondent is proposing to acquire the Property through an alternative method, describe the relevant details;
- Describe the approximate date on which the respondent proposes to close the transaction;
- Please clearly state which components of the Hospital Property are included within the scope of the proposed transaction, and specifically whether the respondent proposes to acquire any or all of the personal property of the Hospital;
- Please fully describe any contingencies or conditions to which the respondent's commitment or ability to proceed with the transaction is subject, if the respondent is selected.

Financial Capacity

Describe the respondent's financial capacity to proceed with the proposed acquisition of the Property, and to finance the start-up and ongoing operation of the programs set forth in the respondent's proposal. At a minimum, please provide the following:

- The source, amount, and availability of funds necessary to:
 - Acquire the Property through the proposed transaction;
 - Proceed with any proposed improvements, renovations, or construction;
 - Provide working capital for start-up and ongoing operations;



- Documentation that such funds are available for the stated purposes within the timetable for the proposed transaction.

Transition Issues

Please describe the manner in which the Respondent's proposal addresses the Trustees' intent to achieve a smooth transition to the successful Respondent. In doing so, please address following areas:

- Opportunities for continuity of employment for the members of the Hospital's existing labor force;
- Opportunities for members of the Hospital medical staff to continue to be professionally associated with the facility, and to be associated with the Respondent's organization;
- The anticipated ongoing involvement of the members of the existing Hospital Board of Trustees, members of Peabody city government, or residents of Peabody in the governance of the entity that would assume control of the Hospital;
- The anticipated ongoing relationship to J.B. Thomas Associates;
- If the respondent is proposing a use that requires the approval of a federal, state, or local regulatory agency, please describe the nature and scope of the necessary approvals, the time required to obtain them, and the reasons the respondent expects to be successful in obtaining them.

SELECTION PROCESS AND CRITERIA

The following criteria will be used by the Board of Trustees to evaluate proposals and to select the successful respondent. The Board of Trustees has the discretion to add and delete items from the following list, to determine the interpretation of each item, to determine the extent to which each proposal is responsive to each item, and to determine the relative importance accorded each item.

The Board has the right to seek clarification on points contained in any or all proposals, and to negotiate with any or all respondents following the submission of the proposals. The Board also has the right to reject all proposals, and the right to transmit the proposals to the Mayor without recommendation. With respect to proposals the Board transmits to the Mayor, the Board in conjunction with the Mayor reserves the right to seek clarification on points contained in said proposals, and to negotiate with respect to said proposals.

The criteria to be applied to the proposed operation and use of the Hospital will include, but will not necessarily be limited to:

- The nature and scope of health services, if any, to be provided by the respondent;
- The nature and time period of any commitments to be provided by the respondent regarding use;
- The opportunities for employment and professional relationships with the respondent by the Hospital's employees and medical staff;
- The opportunities for involvement with the planning and governance of the proposed programs by representatives of J.B. Thomas Hospital and the City of Peabody;
- The reputation and experience of the respondent in conducting operations similar to those proposed, and in planning and implementing any required transition phase;
- The effect of the proposed project on the character of the neighborhood surrounding the Hospital.

The criteria to be applied to the proposed financial arrangements will include, but not necessarily be limited to:

- The price the respondent proposes to pay in the form of lease payments and/or purchase price;
- The ability of the respondent to finance the proposed acquisition, any proposed renovations, and the working capital requirements of the proposed programs;



- The financial stability of the respondent as indicated in audited financial statements and and any other financial documents.

Other criteria to be applied to the proposals will include, but not necessarily be limited to:

- The number and potential effect of the respondent's contingencies;
- Evidence of the respondent's understanding of the process for obtaining any required governmental or regulatory approvals, and the projected time for obtaining the approvals;
- The commitment demonstrated by the respondent to achieving a closing on the proposed transaction in a timely manner.

ATTACHMENTS



Attachment A

Market Share Information



J. B. THOMAS HOSPITAL

Attachment A

TOTAL DISCHARGES

J. B. THOMAS HOSPITAL

	<u>1987</u>	<u>% MARKET SHARE</u>	<u>1988</u>	<u>% MARKET SHARE</u>	<u>1989</u>	<u>% MARKET SHARE</u>	<u>1990</u>	<u>% MARKET SHARE</u>
01960 - PEABODY	1,593	23.2%	1,629	23.7%	1,653	23.5%	1,339	19.0%

BEVERLY

	<u>1987</u>	<u>% MARKET SHARE</u>	<u>1988</u>	<u>% MARKET SHARE</u>	<u>1989</u>	<u>% MARKET SHARE</u>	<u>1990</u>	<u>% MARKET SHARE</u>
01960 - PEABODY	UA		494	7.3%	648	9.2%	884	12.5%

HUNT

	<u>1987</u>	<u>% MARKET SHARE</u>	<u>1988</u>	<u>% MARKET SHARE</u>	<u>1989</u>	<u>% MARKET SHARE</u>	<u>1990</u>	<u>% MARKET SHARE</u>
01960 - PEABODY	537	7.8%	607	8.9%	608	8.7%	386	5.5%

SALEM

	<u>1987</u>	<u>% MARKET SHARE</u>	<u>1988</u>	<u>% MARKET SHARE</u>	<u>1989</u>	<u>% MARKET SHARE</u>	<u>1990</u>	<u>% MARKET SHARE</u>
01960 - PEABODY	1,827	26.6%	1,935	28.2%	1,925	27.4%	2,240	31.8%

ATLANTICARE

	<u>1987</u>	<u>% MARKET SHARE</u>	<u>1988</u>	<u>% MARKET SHARE</u>	<u>1989</u>	<u>% MARKET SHARE</u>	<u>1990</u>	<u>% MARKET SHARE</u>
01960 - PEABODY	UA		550	8.1%	542	7.7%	421	6.0%

STATE TOTAL DISCHARGES

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
01960 - PEABODY	6,866	6,782	7,024	7,053



UTIL INFO SYS
MASS HOSP ASSOC
S2136

J. B. THOMAS HOSPITAL
COMPARATIVE MARKET SHARE
SELECTED TOWNS
1990

PAGE 1
10/03/91

PT ZIP	TOWN	J.B. THOMAS	% MARKET SHARE	BEVERLY	% MARKET SHARE	HUNT	% MARKET SHARE	SALEM	% MARKET SHARE	ATLANTICARE	% MARKET SHARE	STATE TOTAL
01801	WOBURN	1	0.0	9	0.2	2	0.0	23	0.5	6	0.1	5,094
01803	BURLINGTON	0	0.0	7	0.3	0	0.0	20	0.8	3	0.1	2,427
01824	CHELMSFORD	0	0.0	1	0.0	0	0.0	1	0.0	1	0.0	2,609
01830	HAVERHILL	1	0.0	75	1.4	44	0.8	78	1.4	6	0.1	5,393
01864	NORTH READING	2	0.1	39	2.7	24	1.6	42	2.9	13	0.9	1,458
01867	READING	1	0.0	32	1.0	10	0.3	39	1.2	14	0.4	3,180
01880	WAKEFIELD	7	0.2	50	1.4	10	0.3	63	1.7	35	0.9	3,691
01901	LYNN	3	0.4	39	5.4	3	0.4	148	20.7	67	9.4	7,716
01902	LYNN	42	0.8	221	4.2	34	0.6	2440	46.5	902	17.2	5,248
01904	LYNN	54	0.9	77	1.3	28	0.5	843	14.7	4208	73.3	5,741
01905	LYNN	27	1.0	121	4.3	27	1.0	1253	44.3	438	15.5	2,829
01906	SAUGUS	25	0.7	105	2.8	29	0.8	333	8.7	639	16.8	3,813
01907	SWAMPSCOTT	13	0.7	62	3.1	9	0.5	808	40.7	427	21.5	1,986
01908	NAHANT	1	0.2	6	1.3	0	0.0	121	26.6	136	29.9	455
01915	BEVERLY	41	0.8	3465	65.4	231	4.4	589	11.1	51	1.0	5,300
01921	BOXFORD	0	0.0	142	32.3	65	14.8	33	7.5	8	1.8	440
01923	DANVERS	66	1.9	823	23.5	1385	39.5	513	14.6	44	1.3	3,505
01930	GLOUCESTER	5	0.1	589	12.5	33	0.7	139	2.9	16	0.3	4,715
01938	IPSWICH	4	0.3	820	56.9	128	8.9	97	6.7	10	0.7	1,440
01940	LYNNFIELD	80	6.1	58	4.4	35	2.6	160	12.1	161	12.2	1,322
01945	MARBLEHEAD	8	0.4	155	6.8	17	0.8	1329	58.7	93	4.1	2,263
01949	MIDDLETON	10	1.5	133	20.4	192	29.5	110	16.9	16	2.5	651
01960	PEABODY	1339	19.0	884	12.5	386	5.5	2240	31.8	421	6.0	7,053
01970	SALEM	83	1.3	619	9.9	125	2.0	4105	65.7	158	2.5	6,245
02128	BOSTON	1	0.0	6	0.1	1	0.0	10	0.2	34	0.6	5,717
02148	MALDEN	1	0.0	22	0.3	5	0.1	40	0.5	37	0.4	8,689
02149	EVERETT	3	0.0	12	0.2	3	0.0	34	0.5	28	0.4	6,477
02151	REVERE	9	0.1	38	0.5	12	0.2	185	2.4	299	3.9	7,583
02155	MEDFORD	1	0.0	14	0.2	4	0.0	26	0.3	6	0.1	8,620
02180	STONEHAM	2	0.1	21	0.6	5	0.1	22	0.6	13	0.4	3,437
		1830	1.5	8645	7.3	2847	2.4	15844	13.4	8290	7.0	118,097

*** THIS DATA WAS TAKEN FROM THE MHA STATEWIDE DATABASE FOR 1990.

Attachment B

Patient Volume Statistics



**J.E. THOMAS HOSP.
PATIENT STATISTICS**

	YTD 1992**			FY 1991		FY 1990		FY 1989		Inc/Dec 1991/90		Inc/Dec 1990/89		% Chng 1991/90		% Chng 1990/89	
	IN	OUT		IN	OUT	IN	OUT	IN	OUT								
Total Pats. Discharged	1,008			2,129		1,912		2,307		217	(395)	217	(395)	11.3%		11.3%	-17.1%
Discharged Days of Care	8,067			16,923		15,399		20,497		1,524	(5,098)	1,524	(5,098)	9.9%		9.9%	-24.9%
Average Length of Stay	8.00			7.95		8.05		8.88		(0.10)	(0.83)	(0.83)	(0.83)	-1.2%		-1.2%	-9.3%
Total Patients Admitted	1,017			2,117		1,922		2,316		195	(394)	195	(394)	10.1%		10.1%	-17.0%
Maximum Daily Census	59			58		74		83		(16)	(9)	(16)	(9)	-21.6%		-21.6%	-10.8%
Minimum Daily Census	29			30		29		34		1	(5)	1	(5)	3.4%		3.4%	-14.7%
Total Pat Days of Care	8,342			18,398		15,535		20,224		985	(4,689)	985	(4,689)	6.2%		6.2%	-23.2%
Potential Pat Days	10,856			21,535		27,740		29,479		(6,205)	(1,739)	(6,205)	(1,739)	-22.4%		-22.4%	-5.9%
Daily Average Census	45.34			45.21		42.56		55.41		2.65	(12.85)	2.65	(12.85)	6.2%		6.2%	-23.2%
Bed Complement	59			59		76		79		(17)	(3)	(17)	(3)	-22.4%		-22.4%	-3.8%
Avg % of Occupancy	77			77		58		69		21	(13)	21	(13)	36.8%		36.8%	-18.4%

DEPARTMENT STATS

	IN		OUT		IN		OUT		IN		OUT		IN		OUT		IN		OUT	
Cardiac Care Exams	2,263	1,822	5,436	2,960	4,599	2,585	5,937	2,063	1,232	(836)	1,232	(836)	17.2%		17.2%		17.2%		10.5%	
Out Scan Exams	445	608	788	1,785	644	1,391	731	1,284	516	20	516	20	25.4%		25.4%		25.4%		1.0%	
EEG Exams	48	11	119	31	99	25	150	54	28	(80)	28	(80)	21.0%		21.0%		21.0%		39.2%	
Emergency Room Cases		7,190		14,355		14,591		15,119		(236)		(236)	-1.6%		-1.6%		-1.6%		-3.5%	
Home Health Visits		13,582		21,341		18,604		15,713		2,737		2,737	14.7%		14.7%		14.7%		18.4%	
Laboratory Tests	45,071	28,770	98,608	60,748	86,919	58,224	94,736	54,930	14,213	(4,523)	14,213	(4,523)	9.8%		9.8%		9.8%		-3.0%	
Mental Health Visits	63			104		150		174		(46)		(46)	-30.7%		-30.7%		-30.7%		-13.8%	
Nuclear Medicine Exams	245	303	545	834	499	590	680	826	120	(227)	120	(227)	11.3%		11.3%		11.3%		-17.7%	
Operating Room Proc	187	310	461	838	412	631	522	589	37	(58)	37	(58)	3.5%		3.5%		3.5%		-5.2%	
Physical Therapy Trmnts	850	2,703	1,680	5,372	1,778	5,259	2,588	4,854	15	(205)	15	(205)	0.2%		0.2%		0.2%		-2.8%	
Radiology Exams	1,638	5,183	3,590	10,890	2,979	10,884	3,365	10,557	707	(49)	707	(49)	5.1%		5.1%		5.1%		-0.4%	
Resp Therapy Trmnts	5,988	991	14,494	1,285	13,050	720	12,863	936	2,009	(29)	2,009	(29)	14.6%		14.6%		14.6%		-0.2%	
Ultrasound Exams	192	287	314	563	326	658	437	692	(7)	(245)	(7)	(245)	-0.8%		-0.8%		-0.8%		-21.7%	

DISCHARGES

Blue Cross	124		313		315		456		(2)	(141)		(141)	-0.6%		-0.6%		-0.6%		-30.9%	
Commercial	80		168		152		205		16	(53)		(53)	10.5%		10.5%		10.5%		-25.9%	
Welfare	42		77		81		67		(4)	14		14	-4.9%		-4.9%		-4.9%		20.9%	
H.M.O.	77		130		107		120		23	(13)		(13)	21.5%		21.5%		21.5%		-10.8%	
Self Pay	58		85		82		92		3	(10)		(10)	3.7%		3.7%		3.7%		-10.9%	
Medicare	627		1,356		1,175		1,367		181	(192)		(192)	15.4%		15.4%		15.4%		-14.0%	
Total	1,008		2,129		1,912		2,307		217	(395)		(395)	11.3%		11.3%		11.3%		-17.1%	

ADMISSIONS

Blue Cross	123		311		307		435		4	(28)		(28)	1.3%		1.3%		1.3%		-29.4%	
Commercial	81		171		160		225		11	(65)		(65)	6.9%		6.9%		6.9%		-28.9%	
Welfare	41		73		73		71		0	2		2	0.0%		0.0%		0.0%		2.8%	
H.M.O.	83		130		114		140		16	(26)		(26)	14.0%		14.0%		14.0%		-18.6%	
Self Pay	60		79		87		108		(8)	(21)		(21)	-9.2%		-9.2%		-9.2%		-19.4%	
Medicare	626		1,353		1,186		1,305		167	(119)		(119)	14.1%		14.1%		14.1%		-9.1%	
Total	1,017		2,117		1,927		2,284		190	(357)		(357)	9.9%		9.9%		9.9%		-15.6%	

Attachment C

Audited Financial Statements
for Fiscal Years 1988-1991





Peat Marwick

Certified Public Accountants

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Financial Statements

June 30, 1989 and 1988

(With Independent Auditors' Report Thereon)





Peat Marwick

Certified Public Accountants

Peat Marwick Main & Co.

Burlington Business Center II
77 South Bedford Street
Burlington, MA 01803

Telephone 617 273 0012
Telex 617 443 0082 PMMBOST

Telecopier 617 272 0743

Independent Auditors' Report

The Board of Trustees
Josiah B. Thomas Hospital:

We have audited the accompanying balance sheets of Josiah B. Thomas Hospital (a department of the City of Peabody, Massachusetts) as of June 30, 1989 and 1988, and the related statements of revenues and expenses, changes in fund balances, and cash flows of general funds for the years then ended. These financial statements are the responsibility of Josiah B. Thomas Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

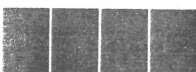
As described more fully in Note 10 to the financial statements, the Hospital does not provide for pension costs as required by generally accepted accounting principles.

In our opinion, except for the effect on the financial statements of accounting for pension costs as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Josiah B. Thomas Hospital at June 30, 1989 and 1988, and the results of its operations, the changes in its fund balances, and cash flows of general funds for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Josiah B. Thomas Hospital will continue as a going concern. As discussed in Note 14 to the financial statements, the Hospital's recurring losses from operations raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to these matters are described in Note 14. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts, or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Peat Marwick Main & Co.

October 6, 1989



Member Firm of
Klynveld Peat Marwick Goerdeler



Balance Sheets

June 30, 1989 and 1988

See accompanying notes to financial statements.



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Revenues and Expenses

Years ended June 30, 1989 and 1988

	<u>1989</u>	<u>1988</u>
Patient service revenue:		
Routine services	\$ 6,739,690	5,900,625
Special medical services	<u>13,045,164</u>	<u>12,058,365</u>
Gross patient service revenue	<u>19,784,854</u>	<u>17,958,990</u>
Deductions from gross patient service revenue:		
Contractual adjustments	4,338,250	3,239,059
Provision for uncollectible accounts	1,182,842	999,028
Charity allowances	<u>122,297</u>	<u>154,154</u>
Total deductions from gross patient service revenue	<u>5,643,389</u>	<u>4,392,241</u>
Net patient service revenue	14,141,465	13,566,749
Other operating revenue	<u>33,215</u>	<u>28,253</u>
Total operating revenue	<u>14,174,680</u>	<u>13,595,002</u>
Operating expenses:		
Salaries, wages, and fringe benefits	8,483,664	7,958,005
Supplies and general services	6,258,925	5,397,203
Physicians' fees	1,402,696	1,359,018
Interest	39,198	61,830
Depreciation and amortization	<u>480,940</u>	<u>487,309</u>
Total operating expenses	<u>16,665,423</u>	<u>15,263,365</u>
Loss from operations	(2,490,743)	(1,668,363)
Nonoperating revenue	<u>39,092</u>	<u>53,462</u>
Excess of expenses over revenues	\$ <u>(2,451,651)</u>	<u>(1,614,901)</u>

See accompanying notes to financial statements.

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Changes in Fund Balances

Years ended June 30, 1989 and 1988

<u>General Funds</u>	<u>1989</u>	<u>1988</u>
Balance at beginning of year	\$ 4,943,492	5,041,881
Excess of expenses over revenues	(2,451,651)	(1,614,901)
Donation of equipment	52,391	192,456
Excess of City disbursements made for Hospital over Hospital receipts deposited with City	<u>2,156,419</u>	<u>1,324,056</u>
Balance at end of year	\$ <u>4,700,651</u>	<u>4,943,492</u>
<u>Restricted Funds</u>		
Balance at beginning of year	\$ 64,763	64,763
Excess of expenses over revenues	<u>(6,744)</u>	<u>-</u>
Balance at end of year	\$ <u>58,019</u>	<u>64,763</u>

See accompanying notes to financial statements.

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Cash Flows of General Funds

Years ended June 30, 1989 and 1988

	<u>1989</u>	<u>1988</u>
Cash flows from operating activities:		
Net loss	\$ (2,451,651)	(1,614,901)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	480,940	487,309
Deferred revenue	(17,000)	-
Loss on disposal of property, plant, and equipment	-	3,440
Nonoperating revenue	(39,092)	(53,462)
Changes in assets and liabilities:		
Patient accounts receivable	(203,448)	(258,115)
Inventories	(8,282)	(2,222)
Prepaid expenses	10,157	46,715
Estimated final settlements due from third-party payors	61,665	339,759
Accounts payable	120,660	49,116
Accrued expenses	51,433	14,834
Accrued wages, compensated absences and benefits	276,740	(34,546)
Estimated final settlements due to third-party payors	<u>(128,379)</u>	<u>(374,306)</u>
Net cash used in operating activities	<u>(1,846,257)</u>	<u>(1,396,379)</u>
Cash flows from investing activities:		
Additions to property, plant, and equipment	<u>(54,455)</u>	<u>(5,145)</u>
Net cash provided used in investing activities	<u>(54,455)</u>	<u>(5,145)</u>
Cash flows from financing activities:		
Principal payments on loans payable	(179,387)	(179,975)
Principal payments on capital lease obligations	(87,874)	(202,936)
Excess of City disbursements made for Hospital over Hospital receipts deposited with City	2,156,419	1,324,056
Nonoperating revenue	<u>39,092</u>	<u>53,462</u>
Net cash provided by financing activities	<u>1,928,250</u>	<u>994,607</u>
Net increase (decrease) in cash	27,538	(406,917)
Cash and cash equivalents at beginning of year	<u>690,207</u>	<u>1,097,124</u>
Cash and cash equivalents at end of year	\$ <u>717,745</u>	<u>690,207</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>40,860</u>	<u>58,860</u>
Income taxes	\$ <u>-</u>	<u>-</u>
Capital lease obligations incurred	\$ <u>27,169</u>	<u>60,000</u>
Donated equipment received	\$ <u>52,391</u>	<u>192,456</u>

See accompanying notes to financial statements.

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

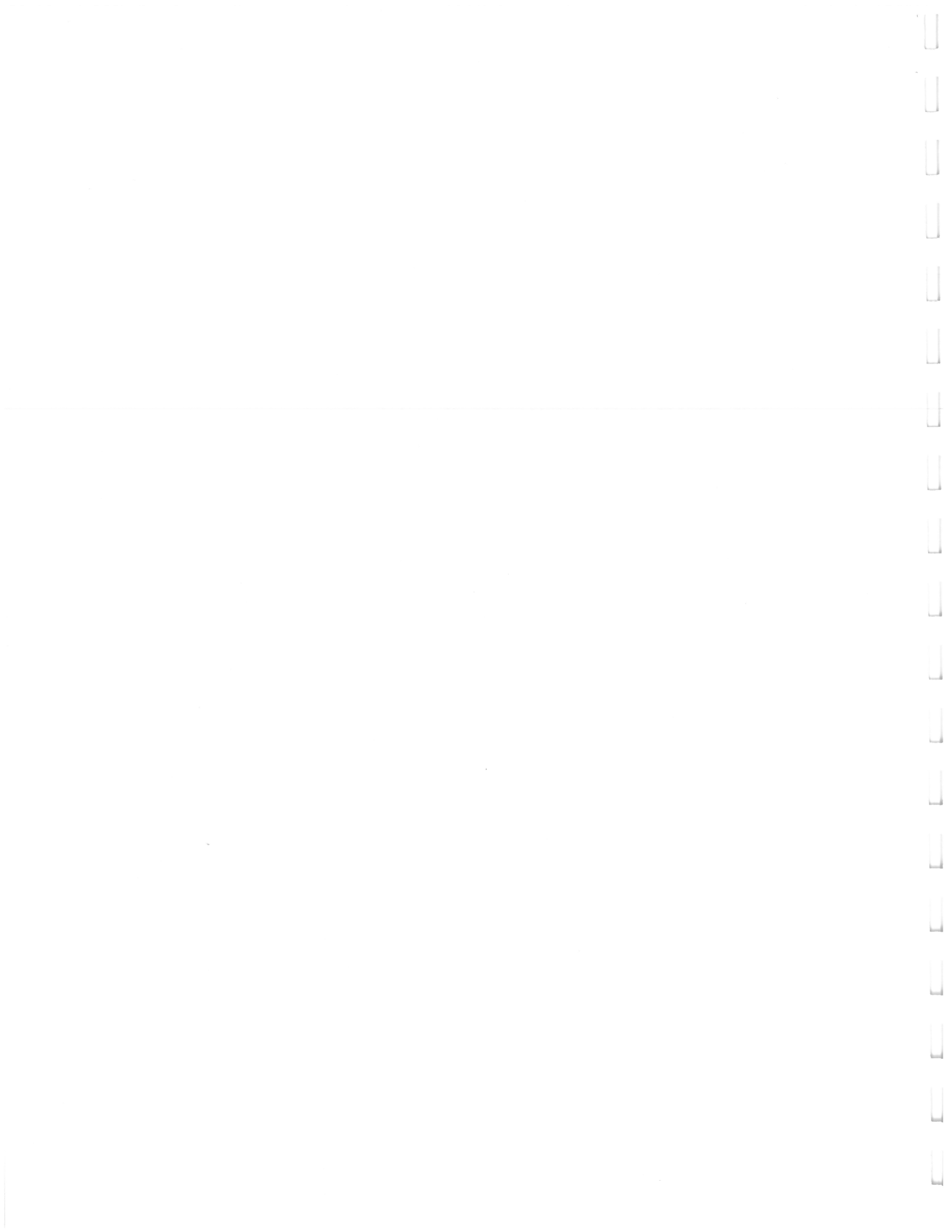
Notes to Financial Statements

June 30, 1989 and 1988

(1) Summary of Significant Accounting Policies

- (a) Josiah B. Thomas Hospital is a department of the City of Peabody, Massachusetts. As a department of the City, all receipts of the Hospital are remitted to the general accounts of the City and all expenditures relative to the Hospital are made by the City. As a result of this procedure, any excess of Hospital revenues over Hospital costs would automatically revert to the general accounts of the City, and any excess of Hospital costs over Hospital revenues would automatically be paid by the City. Therefore, the accompanying financial statements may not present the same condition which would have existed if the Hospital had financial autonomy.
- (b) Funds restricted by outside sources are so indicated and are distinguished from general funds on which the donors place no restrictions or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted.
- (c) The General Fund balance reflects the accumulated results of operations, net of the accumulated cash receipts deposited with the City, and the accumulated cash disbursements by the City in connection with Hospital expenditures. This fund balance represents the City's investment in the Hospital.
- (d) For separate reporting purposes, the Hospital has adopted the accrual method of accounting. Adjustments have been made for purposes of these financial statements to reflect accrual basis items, principally patient receivables, inventories, and accrued expenses. An adjustment has also been made to present as a liability of the Hospital general obligation bonds of the City, the proceeds of which were used for capital additions of the Hospital.
- (e) Patient service revenues are recorded at the Hospital's established rates with contractual adjustments, charity allowances, and the provision for uncollectible accounts deducted to arrive at net patient service revenue.
- (f) Amounts payable under reimbursement agreements are subject to examination and retroactive adjustment by third-party payors. Provisions for estimated retroactive adjustments from Medicare and Blue Cross are provided in the period the related services are rendered.
- (g) Investments in marketable securities purchased by the Hospital are stated at cost. Investment income and realized gains (losses) on sales of general fund investments are recorded as nonoperating revenue. Investment income from restricted fund investments is recorded as nonoperating revenue when unrestricted by the donor.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

- (h) Property, plant, and equipment are recorded at cost. Property held under capital leases is recorded at the present value of the minimum lease payments. Donated property, plant, and equipment is recorded at fair market value at date of donation, which then is treated as cost. Assets are depreciated on the straight-line basis over their estimated useful lives using the guidelines established by the American Hospital Association. Property held under capital leases is depreciated over the term of the lease.
- (i) Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.
- (j) In fiscal 1989, the Hospital adopted Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows" and has changed the format of its statement of changes in financial position to a statement of cash flows. Prior year amounts have been reclassified to conform to the 1989 presentation. For purposes of the statement of cash flows, board-designated investments, consisting of cash and money market funds, are considered to be cash equivalents.

(2) Third Party Reimbursement

Effective July 1, 1983, Massachusetts payment legislation Chapter 372 was enacted to govern the establishment of hospital charges and government rates of payment. Chapter 372 established a prospective payment system for substantially all payors and adopted the Blue Cross basis of payment as the basis for determining the approved level of gross patient service revenue and Medicaid and Medicare rates of payment. Effective July 1, 1986, the payment system established pursuant to the Chapter 372 legislation was amended for a two-year period by Chapter 574. The two principal modifications were the exclusion of Medicare reimbursement from the Massachusetts system and the establishment of an uncompensated care pool to uniformly fund free care and bad debts incurred by hospitals. Effective July 1, 1988, the Massachusetts legislature enacted Chapter 23 to govern hospital charges through June 30, 1992. The system established under Chapter 23 continues the methodology established under Chapters 372/574 with some modifications including a discontinuance of the productivity factors after fiscal 1989 which reduced hospital payments under Chapters 372/574; greater incentives for changes in volume and case mix and a rebasing of the fiscal 1987 inpatient volume allowance; and the establishment of a statewide cap on the amount of uncompensated care costs that can be recovered through hospital charges.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

For fiscal 1989 and 1988, pursuant to Hospital Agreements HA-31 and HA-30, respectively, Blue Cross paid the Hospital a proportionate share of the substantially fixed Maximum Allowable Costs ("MAC") as well as their share of the statewide uniform uncompensated care allowance. The MAC is based upon base year (fiscal 1982) patient care costs with annual adjustments for inflation, an add-on to inflation, and changes in volume and case mix and with certain items, principally depreciation, interest, and malpractice insurance, reimbursed on a cost basis outside the MAC. The current agreement, HA-31, expires on June 30, 1992. In fiscal 1988, the Blue Cross basis of payment was reduced by a 6% productivity factor as mandated by Chapters 372/574. This reduced basis of payment served as the base for determining the fiscal 1989 Blue Cross basis of payment.

Under Chapters 372/574, Medicaid reimbursement is based upon Medicaid's proportionate share of the Blue Cross MAC basis of payment reduced by a fixed discount to maintain Medicaid's discount at the fiscal 1982 level. In fiscal 1988, the basis of payment for Medicaid was reduced by an 8% productivity factor as mandated by Chapters 372/574. Under Chapter 23, Medicaid reimbursement in fiscal 1989 was based upon approved charges less a discount which reflected the fiscal 1988 relationship between Medicaid reimbursement and approved charges.

The Hospital is reimbursed for services during the year at interim rates by Blue Cross, Medicaid, and Medicare with differences between Hospital charges and estimated final reimbursement recorded as contractual adjustments.

Also under Chapter 23 and Chapters 372/574, gross patient service revenue is limited to a maximum level based upon the Blue Cross basis of payment. Any revenue generated in excess of the approved level in one year results in the reduction of approved gross patient service revenue in the succeeding year. The excess revenue is deferred by the Hospital.

The Hospital is required to prepare and file certain compliance reports pursuant to the Blue Cross agreement Chapters 23 and 372/574 and Medicare regulations. The Hospital is current with respect to all compliance filings. Differences between estimated and actual final settlements are recorded as contractual adjustments in the year determined. The Hospital recognized net income of \$208,605 in 1989 and net income of \$241,548 in 1988 as a result of final settlements and other prior year adjustments. Final settlements have been determined with Blue Cross through 1985.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(3) Cash

A reconciliation of the June 30, 1989 and 1988 cash balances as reported by the Hospital to the balance per the financial statements follows:

	<u>1989</u>	<u>1988</u>
Cash per Hospital	\$ -	-
Payments of bills relating to fiscal year made after June 30 (note 6)	692,560	645,176
Other	<u>1,500</u>	<u>815</u>
Balance per financial statements	\$ <u>694,060</u>	<u>645,991</u>

(4) Investments

Cost and market values of investments as of June 30, 1989 and 1988 are summarized as follows:

	<u>1989</u>		<u>1988</u>	
	<u>Cost</u>	<u>Quoted Market</u>	<u>Cost</u>	<u>Quoted Market</u>
<u>General:</u>				
Cash in savings accounts and certificates	\$ <u>23,685</u>	<u>23,685</u>	<u>44,216</u>	<u>44,216</u>
<u>Restricted:</u>				
Investments held by trustee:				
Bonds	41,000	27,400	46,000	32,450
Stocks	<u>17,019</u>	<u>128,595</u>	<u>18,763</u>	<u>120,500</u>
	<u>58,019</u>	<u>155,995</u>	<u>64,763</u>	<u>152,950</u>
	\$ <u>84,442</u>	<u>182,418</u>	<u>108,979</u>	<u>197,166</u>

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(5) Property, Plant, and Equipment

Property, plant, and equipment by major category is as follows at June 30, 1989 and 1988:

	<u>Cost</u>	
	<u>1989</u>	<u>1988</u>
Depreciable assets:		
Land improvements	\$ 16,866	16,866
Buildings	3,651,705	3,636,745
Fixed equipment	2,573,366	2,570,589
Movable equipment	<u>2,896,024</u>	<u>2,779,746</u>
	9,137,961	9,003,946
Less: accumulated depreciation	<u>5,822,027</u>	<u>5,341,087</u>
	3,315,934	3,662,859
Nondepreciable assets:		
Land	<u>96,000</u>	<u>96,000</u>
	<u>\$ 3,411,934</u>	<u>3,758,859</u>

The ranges of depreciable lives of land improvements, buildings, and equipment are 10-20, 5-50, and 8-20 years, respectively.

(6) Accounts Payable

A reconciliation of the accounts payable balance per the Hospital's records to the financial statements follows at June 30, 1989 and 1988:

	<u>1989</u>	<u>1988</u>
Bills outstanding at June 30, 1989 and 1988 per books	\$ -	-
Bills recorded as paid by Hospital prior to June 30, although the checks were distributed and paid after June 30 (note 3)	692,560	652,176
Accounts receivable credit balances reclassified to accounts payable	<u>377,540</u>	<u>297,264</u>
Balance per financial statements	<u>\$ 1,070,100</u>	<u>949,440</u>

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(7) Loans Payable

Loans payable consisted of the following at June 30, 1989 and 1988:

	<u>1989</u>	<u>1988</u>
General obligation bonds:		
Building municipal bonds, 4.5%, payable in annual installments of \$100,000 through December 1991	\$ 300,000	400,000
Hospital bonds, 6.75%, payable in annual installments of \$19,387 through 1990 with declining payments through May 1992	33,501	52,888
Hospital remodeling bonds, 7.5%, payable in annual installments of \$60,000 through April 1989	-	60,000
Total loans payable	333,501	512,888
Less current installments	<u>119,387</u>	<u>179,387</u>
Long-term loans payable	\$ <u>214,114</u>	<u>333,501</u>

Aggregate annual maturities of long-term debt for the years subsequent to June 30, 1988 are as follows:

<u>Year</u>	<u>Amount</u>
1990	\$ 119,387
1991	107,064
1992	107,050

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(8) Commitments

The Hospital leases medical equipment under terms of five-year capital leases. The future minimum lease payments under noncancelable leases are:

Year ending June 30:	
1990	\$ 104,417
1991	104,417
1992	89,887
1993	18,690
1994	<u>1,678</u>
Total minimum lease payments	319,089
Less amount representing interest	<u>21,519</u>
Present value of minimum lease payments	297,570
Less current installment of obligations under capital leases	<u>90,997</u>
Obligations under capital leases, long-term	\$ <u>206,573</u>

Property held under capital leases included in property, plant, and equipment is as follows at June 30, 1989:

Medical equipment	\$ 443,419
Less accumulated amortization	<u>203,852</u>
	\$ <u>239,567</u>

(9) Contingencies

The Hospital maintains malpractice insurance coverage through an occurrence basis insurance policy. The occurrence basis policy insures incidents that occur during the period of coverage although the claim may be filed in a subsequent period.

Under the terms of the legislation which created the Joint Underwriting Association of Massachusetts, the Hospital is subject to pro rata assessment for any deficit sustained by the insurer (Joint Underwriting Association of Massachusetts). To date, no amounts have been assessed.

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(10) Pension Plan

Hospital employees participate in the City's contributory retirement system that is partially funded by employee contributions. The retirement system covers all municipal employees except school teachers, whose pensions are paid by the Commonwealth of Massachusetts. The Hospital's contribution for pension expense was \$487,777 and \$408,016 for the years ended June 30, 1989 and June 30, 1988, respectively. The expense is determined on a pay-as-you-go basis by the Commonwealth's Division of Insurance and is based on estimates of pensions actually payable during an accounting period including a City allocation of the retirement system's total operating expense. Under generally accepted accounting principles (GAAP), annual pension expense is a measure of the future retirement benefits earned by employees during an accounting period. It is probable that annual provisions for pension expense under GAAP, (based upon an actuarial valuation of the plan and amortization of the unfunded past service cost over a reasonable future period), would be substantially higher than annual amounts provided under the present pay-as-you-go method.

Accumulated plan benefits and the net assets of the City's retirement system as of July 1, 1987 (latest date such information is available) are presented below:

Actuarial present value of accumulated plan benefits (July 1, 1987):	
Vested (ancillary benefits are not considered vested)	\$ 50,296,000
Nonvested	<u>14,950,400</u>
	<u>\$ 65,246,400</u>
Net assets available for benefits	<u>\$ 22,200,100</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

(11) Interdepartment Charges

The Hospital's financial statements include certain direct payments made by the City of Peabody on behalf of the Hospital such as loan principal and interest payments, building improvements, pension payments, insurance payments, and employee benefits. These payments amounted to approximately \$2,156,000 and \$1,324,000 for the years ended June 30, 1989 and 1988, respectively. Other services which are provided to the Hospital by the City without charge are:

- Processing of cash receipts and cash disbursements
- Reconciliation of bank accounts

The costs incurred by the City in connection with these services are not reflected in the financial statements of the Hospital.

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(12) Federal Income Taxes

The Hospital is a department of a municipality and is exempt from federal income taxes.

(13) Energy Savings Agreement

In 1984 and 1987, the Hospital signed agreements which provide for the design, installation, and maintenance of energy-saving programs and equipment to the Hospital. Payment for the program is based on energy savings realized during the ten-year period the program is in place. The Hospital may terminate the agreement at any time by purchasing the equipment for the greater of its fair market value or a termination value as follows:

Year ending June 30:	Termination value
1990	\$ 317,000
1991	257,000
1992	197,000
1993	137,000
1994	77,000
1995	17,000

(14) Going Concern Issues

For the fiscal years ending 1989 and 1988, the Hospital incurred operating losses of \$2,490,743 and \$1,668,363, respectively. The Hospital's equity has decreased by \$341,230 in that two-year period as the operating losses have been partially funded by \$3,480,475 in net disbursements made for the Hospital by the City of Peabody.

Management has, in the past few years, undertaken action to reduce operating costs. However, management believes that future reductions in operating costs are not probable and, given the current regulatory environment, the operating losses are expected to continue into the foreseeable future. Accordingly, management believes that the Hospital, as a department of the City, will need either the ongoing financial support of the City, or will need to merge or affiliate with another health care institution.



Certified Public Accountants

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Financial Statements

June 30, 1990 and 1989

(With Independent Auditors' Report Thereon)



Independent Auditors' Report

The Board of Trustees
Josiah B. Thomas Hospital:

We have audited the accompanying balance sheets of Josiah B. Thomas Hospital (a department of the City of Peabody, Massachusetts) as of June 30, 1990 and 1989, and the related statements of revenues and expenses, changes in fund balances, and cash flows of general funds for the years then ended. These financial statements are the responsibility of Josiah B. Thomas Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

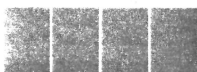
As described more fully in Note 10 to the financial statements, the Hospital does not provide for pension costs as required by generally accepted accounting principles.

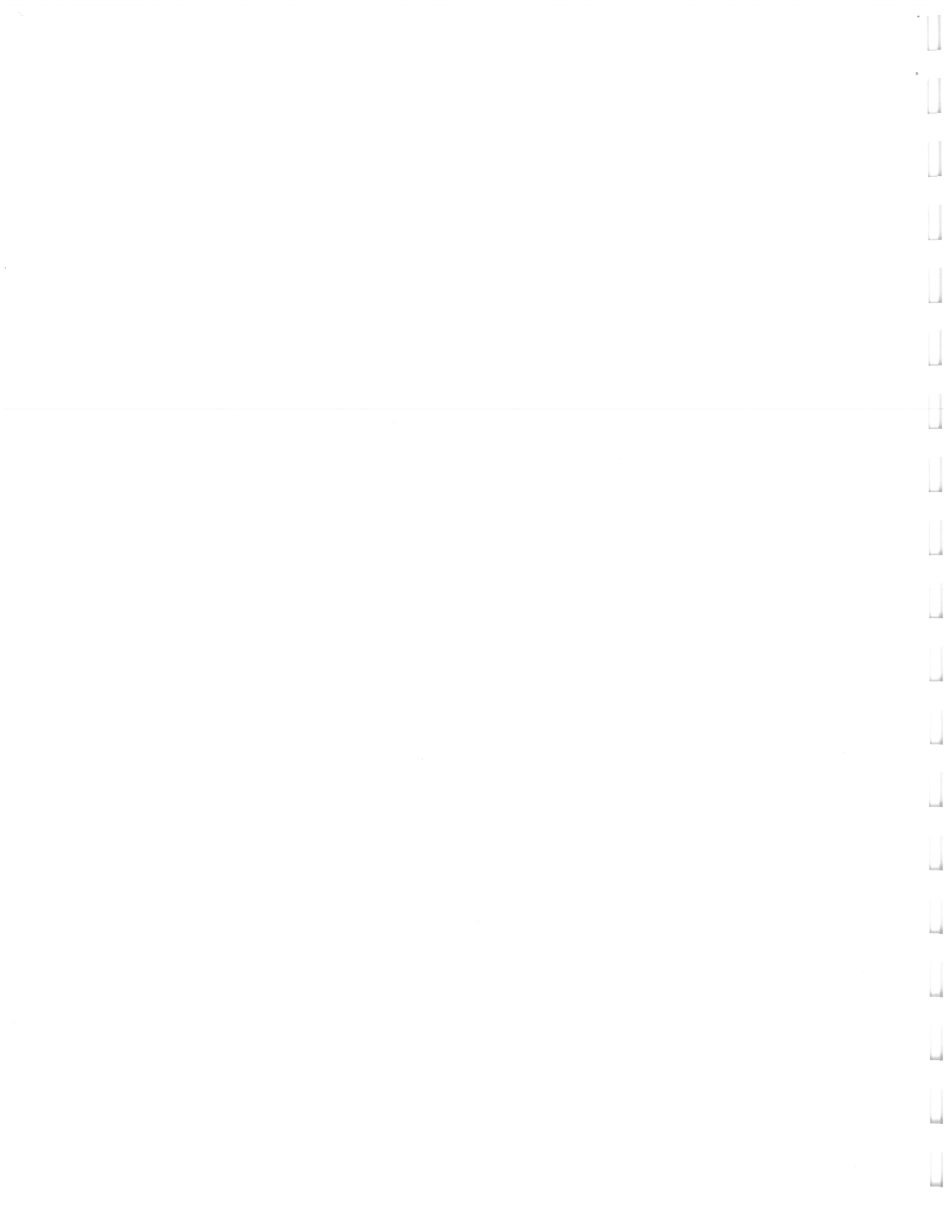
In our opinion, except for the effect on the financial statements of the failure to provide for pension costs as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Josiah B. Thomas Hospital at June 30, 1990 and 1989, and the results of its operations, the changes in its fund balances, and cash flows of general funds for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Josiah B. Thomas Hospital will continue as a going concern. As discussed in Note 14 to the financial statements, the Hospital's recurring losses from operations raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to this matter is described in Note 14. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

KPMG Peat Marwick

September 21, 1990





Balance Sheets

June 30, 1990 and 1989

Liabilities and Fund Balances

See accompanying notes to financial statements.

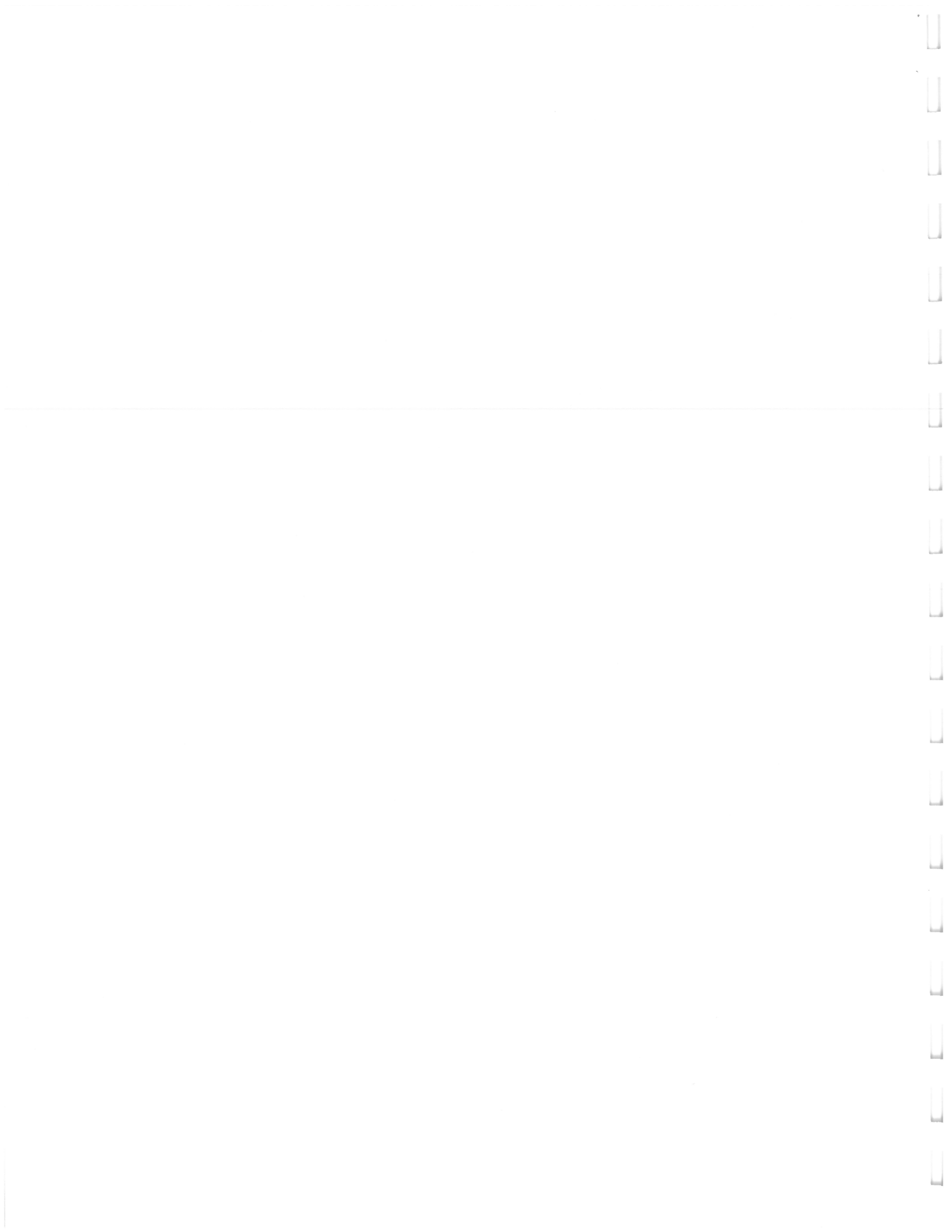
JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Revenues and Expenses

Years ended June 30, 1990 and 1989

	<u>1990</u>	<u>1989</u>
Patient service revenue:		
Routine services	\$ 6,089,186	6,739,690
Special medical services	<u>14,118,492</u>	<u>13,045,164</u>
Gross patient service revenue	<u>20,207,678</u>	<u>19,784,854</u>
Deductions from gross patient service revenue:		
Contractual adjustments	5,392,770	4,338,250
Provision for uncollectible accounts	518,421	1,182,842
Charity allowances	<u>227,225</u>	<u>122,297</u>
Total deductions from gross patient service revenue	<u>6,138,416</u>	<u>5,643,389</u>
Net patient service revenue	14,069,262	14,141,465
Other operating revenue (expense)	<u>114,693</u>	<u>33,215</u>
Total operating revenue	<u>14,183,955</u>	<u>14,174,680</u>
Operating expenses:		
Salaries and wages	7,891,682	8,483,664
Supplies and general services	6,713,622	6,258,925
Physicians' fees	1,511,576	1,402,696
Interest	26,044	39,198
Depreciation and amortization	<u>432,347</u>	<u>480,940</u>
Total operating expenses	<u>16,575,271</u>	<u>16,665,423</u>
Loss from operations	(2,391,316)	(2,490,743)
Nonoperating revenue (expense)	<u>(17,789)</u>	<u>39,092</u>
Excess of expenses over revenues	\$ <u>(2,409,105)</u>	<u>(2,451,651)</u>

See accompanying notes to financial statements.



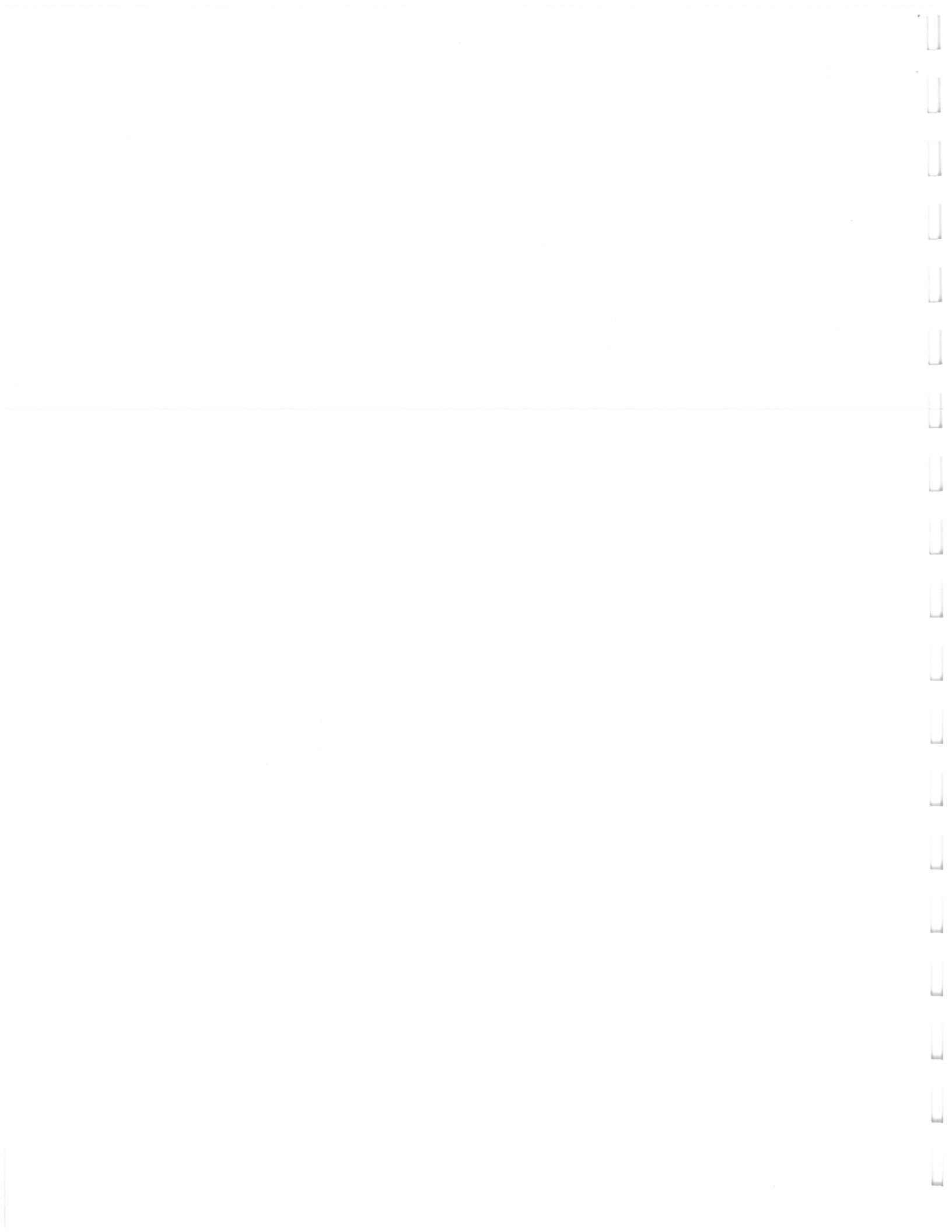
JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Changes in Fund Balances

Years ended June 30, 1990 and 1989

<u>General Funds</u>	<u>1990</u>	<u>1989</u>
Balance at beginning of year	\$ 4,700,651	4,943,492
Excess of expenses over revenues	(2,409,105)	(2,451,651)
Donation of equipment	22,700	52,391
Excess of City disbursements made for Hospital over Hospital receipts deposited with City	<u>1,035,759</u>	<u>2,156,419</u>
Balance at end of year	\$ <u>3,350,005</u>	<u>4,700,651</u>
<u>Restricted Funds</u>		
Balance at beginning of year	\$ 58,019	64,763
Transfer of resources restricted by donors for operating and other purposes, net	<u>(20,834)</u>	<u>(6,744)</u>
Balance at end of year	\$ <u>37,185</u>	<u>58,019</u>

See accompanying notes to financial statements.



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Cash Flows of General Funds

Years ended June 30, 1990 and 1989

	<u>1990</u>	<u>1989</u>
Cash flows used in operating activities:		
Excess of expenses over revenues	\$ (2,409,105)	(2,451,651)
Adjustments to reconcile excess of expenses over revenues to net cash used in operating and nonoperating activities:		
Depreciation and amortization	432,347	480,940
Deferred revenue	176,000	(17,000)
Changes in assets and liabilities:		
Patient accounts receivable	43,888	(203,448)
Inventories of drugs and supplies	3,523	(8,282)
Prepaid expenses	(16,096)	10,157
Estimated final settlements due from third-party payors	373,800	61,665
Accounts payable	(11,788)	120,660
Accrued expenses	(14,938)	51,433
Accrued wages, compensated absences and benefits	(31,565)	276,740
Estimated final settlements due to third-party payors	<u>646,400</u>	<u>(128,379)</u>
Net cash used in operating and nonoperating activities	<u>(807,534)</u>	<u>(1,807,165)</u>
Cash flows used in investing activities:		
Additions to property, plant, and equipment	(31,538)	(54,455)
Decrease in assets whose use is limited	<u>9,639</u>	<u>20,531</u>
Net cash used in investing activities	<u>(21,899)</u>	<u>(33,924)</u>
Cash flows from financing activities:		
Principal payments on loans payable	(119,387)	(179,387)
Principal payments on capital lease obligations	(90,370)	(87,874)
Excess of City disbursements made for Hospital over Hospital receipts deposited with City	<u>1,035,759</u>	<u>2,156,419</u>
Net cash provided by financing activities	<u>826,002</u>	<u>1,889,158</u>
Net increase (decrease) in cash	(3,431)	48,069
Cash at beginning of year	<u>694,060</u>	<u>645,991</u>
Cash at end of year	\$ <u>690,629</u>	<u>694,060</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u>26,584</u>	<u>40,860</u>
Income taxes	\$ <u>-</u>	<u>-</u>
Capital lease obligations incurred	\$ <u>-</u>	<u>27,169</u>
Donated equipment received	\$ <u>22,700</u>	<u>52,391</u>

See accompanying notes to financial statements.

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

June 30, 1990 and 1989

(1) Summary of Significant Accounting Policies

- (a) Josiah B. Thomas Hospital is a department of the City of Peabody, Massachusetts. As a department of the City, all receipts of the Hospital are remitted to the general accounts of the City and all expenditures relative to the Hospital are made by the City. As a result of this procedure, any excess of Hospital revenues over Hospital costs would automatically revert to the general accounts of the City, and any excess of Hospital costs over Hospital revenues would automatically be paid by the City. Therefore, the accompanying financial statements may not present the same condition which would have existed if the Hospital had financial autonomy.
- (b) Funds restricted by outside sources are so indicated and are distinguished from general funds on which the donors place no restrictions or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted.
- (c) The General Fund balance reflects the accumulated results of operations, net of the accumulated cash receipts deposited with the City, and the accumulated cash disbursements by the City in connection with Hospital expenditures. This fund balance represents the City's investment in the Hospital.
- (d) For separate reporting purposes, the Hospital has adopted the accrual method of accounting. Adjustments have been made for purposes of these financial statements to reflect accrual basis items, principally patient receivables, inventories, and accrued expenses. An adjustment has also been made to present as a liability of the Hospital general obligation bonds of the City, the proceeds of which were used for capital additions of the Hospital.
- (e) Patient service revenues are recorded at the Hospital's established rates with contractual adjustments, charity allowances, and the provision for uncollectible accounts deducted to arrive at net patient service revenue.
- (f) Patient service revenue received under cost reimbursement agreements is subject to audit and retroactive adjustment by third-party payors. Provisions for estimated retroactive adjustments from Medicare, Medicaid, and Blue Cross are provided in the period the related services are rendered.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

- (g) Investments in marketable securities purchased by the Hospital are stated at cost. Investment income and realized gains (losses) on sales of general fund investments are recorded as nonoperating revenue. Investment income from restricted fund investments is recorded as nonoperating revenue when unrestricted by the donor.
 - (h) Property, plant, and equipment are recorded at cost. Property held under capital leases is recorded at the present value of the minimum lease payments. Donated property, plant, and equipment is recorded at fair market value at date of donation, which then is treated as cost. Assets are depreciated on the straight-line basis over their estimated useful lives using the guidelines established by the American Hospital Association. Property held under capital leases is depreciated over the term of the lease.
 - (i) Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.
- (2) Third Party Reimbursement

Effective July 1, 1983, Massachusetts payment legislation Chapter 372 was enacted to govern the establishment of hospital charges and government rates of payment. Chapter 372 established a prospective payment system for substantially all payors and adopted the Blue Cross basis of payment as the basis for determining the approved level of gross patient service revenue and Medicaid and Medicare rates of payment. Effective July 1, 1986, the payment system established pursuant to the Chapter 372 legislation was amended for a two-year period by Chapter 574. The two principal modifications were the exclusion of Medicare reimbursement from the Massachusetts system and the establishment of an uncompensated care pool to uniformly fund free care and bad debts incurred by hospitals. Effective July 1, 1988, the Massachusetts legislature enacted Chapter 23 to govern hospital charges through June 30, 1992. The system established under Chapter 23 continues the methodology established under Chapters 372/574 with some modifications including a discontinuance of the productivity factors after fiscal 1989 which reduced hospital payments under Chapters 372/574; greater incentives for changes in volume and case mix and a rebasing of the fiscal 1987 inpatient volume allowance; and the establishment of a statewide cap on the amount of uncompensated care costs that can be recovered through hospital charges.

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

For fiscal 1990 and 1989, pursuant to Hospital Agreements HA-31 and HA-30, respectively, Blue Cross paid the Hospital a proportionate share of the substantially fixed Maximum Allowable Costs ("MAC") as well as their share of the statewide uniform uncompensated care allowance. The MAC is based upon base year (year ending June 30, 1982) patient care costs with annual adjustments for inflation, an add-on to inflation, and changes in volume and case mix and with certain items, principally depreciation, interest, and malpractice insurance, reimbursed on a cost basis outside the MAC. The current agreement, HA-31, expires on June 30, 1992. In fiscal 1988, the Blue Cross basis of payment was reduced by a 6% productivity factor as mandated by Chapters 372/574. This reduced basis of payment served as the base for determining the fiscal 1990 and 1989 Blue Cross basis of payment.

Under Chapters 372/574, Medicaid reimbursement is based upon Medicaid's proportionate share of the Blue Cross MAC basis of payment reduced by a fixed discount to maintain Medicaid's discount at the fiscal 1982 level. In fiscal 1988, the basis of payment for Medicaid was reduced by an 8% productivity factor as mandated by Chapters 372/574. Under Chapter 23, Medicaid reimbursement in fiscal 1990 and 1989 was based upon approved charges less a discount which reflected the fiscal 1988 relationship between Medicaid reimbursement and approved charges.

The Hospital is reimbursed for services during the year at interim rates by Blue Cross, Medicaid, and Medicare with differences between Hospital charges and estimated final reimbursement recorded as contractual adjustments.

Also under Chapter 23 and Chapters 372/574, gross patient service revenue is limited to a maximum level based upon the Blue Cross basis of payment. Any revenue generated in excess of the approved level in one year results in the reduction of approved gross patient service revenue in the succeeding year. The excess revenue is deferred by the Hospital.

The Hospital is required to prepare and file certain compliance reports pursuant to the Blue Cross agreement Chapters 23 and 372/574 and Medicare regulations. The Hospital is current with respect to all compliance filings. Differences between estimated and actual final settlements are recorded as contractual adjustments in the year determined. The Hospital recognized unfavorable adjustments of \$820,000 in 1990 and favorable adjustments of \$208,000 in 1989 as a result of final settlements and other prior year adjustments. Final settlements have been determined with Blue Cross, Medicare, and Medicaid through 1985, 1987, and 1983, respectively.

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(3) Cash

A reconciliation of the June 30, 1990 and 1989 cash balances as reflected in the Hospital's records to the balance per the financial statements follows:

	<u>1990</u>	<u>1989</u>
Cash per Hospital's records	\$ -	-
Payments of bills relating to fiscal year made after June 30 (note 6)	689,129	692,560
Other	<u>1,500</u>	<u>1,500</u>
Balance per financial statements	\$ <u>690,629</u>	<u>694,060</u>

(4) Investments

Cost and market values of investments as of June 30, 1990 and 1989 are summarized as follows:

	<u>1990</u>		<u>1989</u>	
	<u>Cost</u>	<u>Quoted Market</u>	<u>Cost</u>	<u>Quoted Market</u>
<u>General:</u>				
Cash in savings accounts and certificates	\$ <u>14,046</u>	<u>14,046</u>	<u>23,685</u>	<u>23,685</u>
<u>Restricted:</u>				
Investments held by trustee:				
Bonds	21,000	11,800	41,000	27,400
Stocks	<u>16,185</u>	<u>130,554</u>	<u>17,019</u>	<u>128,595</u>
	<u>37,185</u>	<u>142,354</u>	<u>58,019</u>	<u>155,995</u>
	\$ <u>51,231</u>	<u>156,400</u>	<u>81,704</u>	<u>179,680</u>

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(5) Property, Plant, and Equipment

Property, plant, and equipment by major category is as follows at June 30, 1990 and 1989:

	<u>Cost</u>	
	<u>1990</u>	<u>1989</u>
Depreciable assets:		
Land improvements	\$ 16,866	16,866
Buildings	3,668,389	3,651,705
Fixed equipment	2,577,504	2,573,366
Movable equipment	<u>2,929,440</u>	<u>2,896,024</u>
	9,192,199	9,137,961
Less: accumulated depreciation	<u>6,254,374</u>	<u>5,822,027</u>
	2,937,825	3,315,934
Nondepreciable assets:		
Land	<u>96,000</u>	<u>96,000</u>
	<u>\$ 3,033,825</u>	<u>3,411,934</u>

The ranges of depreciable lives of land improvements, buildings, and equipment are 10-20, 5-50, and 8-20 years, respectively.

(6) Accounts Payable

A reconciliation of the accounts payable balance reflected in the Hospital's records to the balance per the financial statements follows at June 30, 1990 and 1989 follows:

	<u>1990</u>	<u>1989</u>
Bills outstanding at June 30 per Hospital's records	\$ 22,679	-
Bills recorded as paid by Hospital prior to June 30, although the checks were distributed and paid after June 30 (note 3)	689,129	692,560
Accounts receivable credit balances reclassified to accounts payable	<u>346,504</u>	<u>377,540</u>
Balance per financial statements	<u>\$ 1,058,312</u>	<u>1,070,100</u>

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(7) Loans Payable

Loans payable consisted of the following at June 30, 1990 and 1989:

	<u>1990</u>	<u>1989</u>
General obligation bonds:		
Building municipal bonds, 4.5%, payable in annual installments of \$100,000 through December 1991	\$ 200,000	300,000
Hospital bonds, 6.75%, payable in annual installments of \$19,387 through 1990 with declining payments through May 1992	<u>14,114</u>	<u>33,501</u>
Total loans payable	214,114	333,501
Less current installments	<u>107,064</u>	<u>119,387</u>
Long-term loans payable	\$ <u>107,050</u>	<u>214,114</u>

Aggregate annual maturities of long-term debt for the years subsequent to June 30, 1990 are as follows:

<u>Year</u>	<u>Amount</u>
1991	\$ 107,064
1992	107,050

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(8) Commitments

The Hospital leases medical equipment under terms of five-year capital leases. The future minimum lease payments under noncancelable leases are:

Year ending June 30:	
1991	\$ 105,392
1992	89,887
1993	18,690
1994	<u>2,275</u>
Total minimum lease payments	216,244
Less amount representing interest	<u>9,044</u>
Present value of minimum lease payments	207,200
Less current installment of obligations under capital leases	<u>96,207</u>
Obligations under capital leases, long-term	\$ <u>110,993</u>

Property held under capital leases included in property, plant, and equipment is as follows at June 30, 1990:

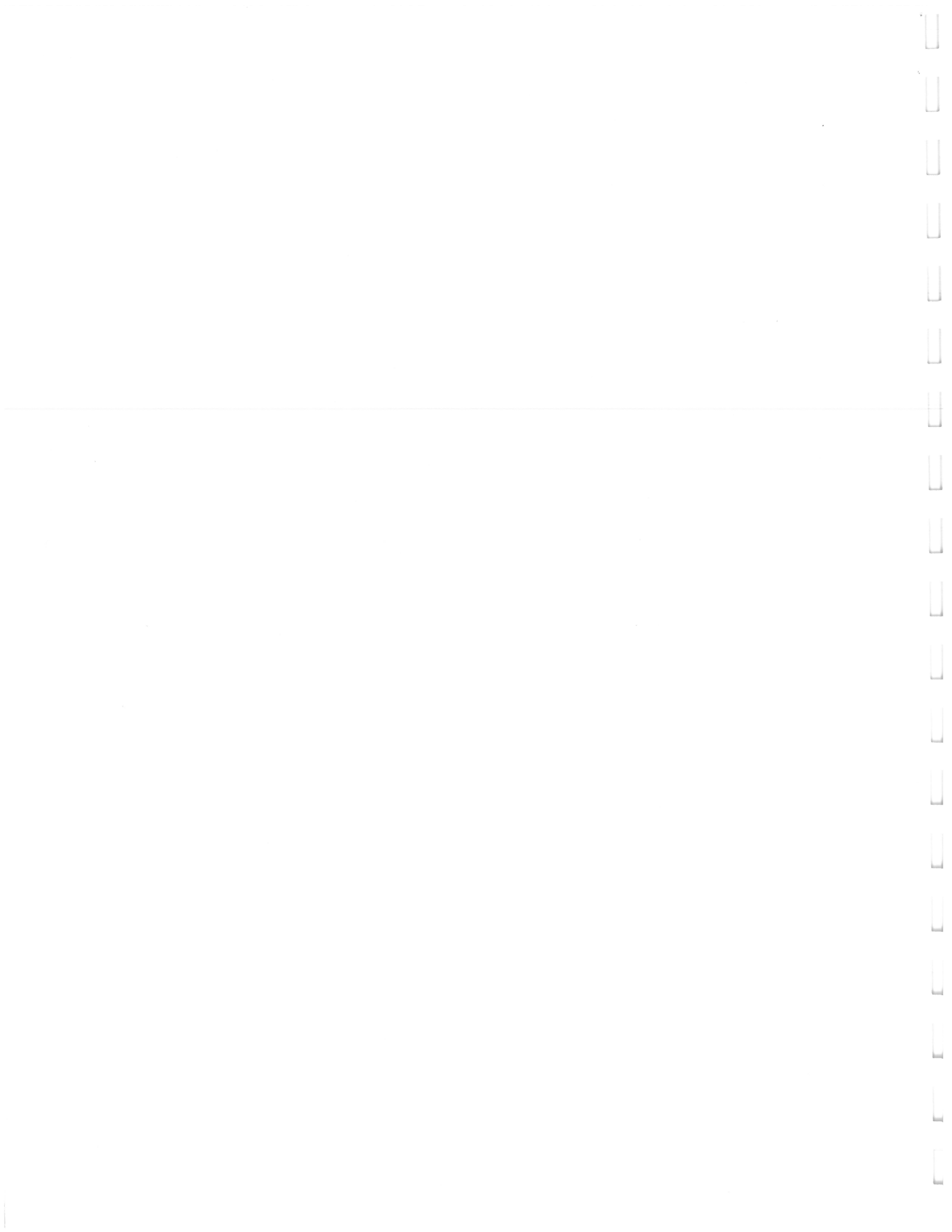
Medical equipment	\$ 443,419
Less accumulated amortization	<u>292,536</u>
	\$ <u>150,883</u>

(9) Contingencies

The Hospital maintains malpractice insurance coverage through an occurrence basis insurance policy. The occurrence basis policy insures incidents that occur during the period of coverage although the claim may be filed in a subsequent period.

Under the terms of the legislation which created the Joint Underwriting Association of Massachusetts, the Hospital is subject to pro rata assessment for any deficit sustained by the insurer (Joint Underwriting Association of Massachusetts). To date, no amounts have been assessed.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(10) Pension Plan

Hospital employees participate in the City's contributory retirement system that is partially funded by employee contributions. The retirement system covers all municipal employees, except school teachers, whose pensions are paid by the Commonwealth's Public Employee Retirement Association (PERA) of Massachusetts. The Hospital's contribution for pension expense was \$554,086 and \$487,777 for the years ended June 30, 1990 and June 30, 1989, respectively. The expense is determined on a pay-as-you-go basis by the Commonwealth's Division of Insurance and is based on estimates of pensions actually payable during an accounting period including a City allocation of the retirement system's total operating expense. Under generally accepted accounting principles (GAAP), annual pension expense is a measure of the future retirement benefits earned by employees during an accounting period. It is probable that annual provisions for pension expense under GAAP (based upon an actuarial valuation of the plan and amortization of the unfunded past service cost over a reasonable future period) would be substantially higher than annual amounts provided under the present pay-as-you-go method.

Accumulated plan benefits and the net assets of the City's retirement system as of July 1, 1987 (latest date such information is available) are presented below:

Actuarial present value of accumulated plan
benefits (July 1, 1987):

Vested (ancillary benefits are not
considered vested)

\$ 50,296,000

Nonvested

14,950,400

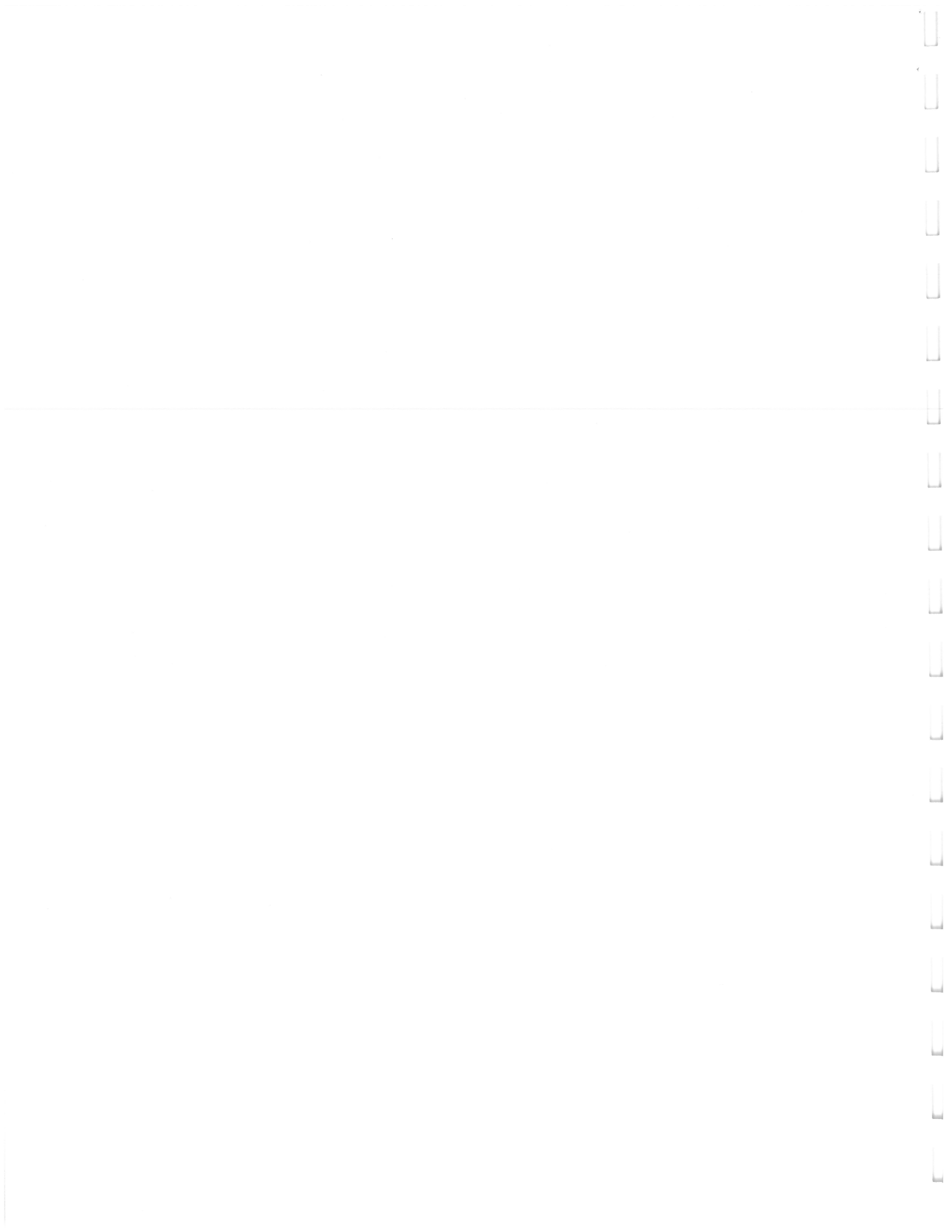
\$ 65,246,400

Net assets available for benefits

\$ 22,200,100

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(11) Interdepartment Charges

The Hospital's financial statements include certain direct payments made by the City of Peabody on behalf of the Hospital such as loan principal and interest payments, building improvements, pension payments, insurance payments, and employee benefits. These payments amounted to approximately \$1,036,000 and \$2,156,000 for the years ended June 30, 1990 and 1989, respectively. Other services which are provided to the Hospital by the City without charge are:

- Processing of cash receipts and cash disbursements
- Reconciliation of bank accounts

The costs incurred by the City in connection with these services are not reflected in the financial statements of the Hospital.

(12) Federal Income Taxes

The Hospital is a department of a municipality and is exempt from federal income taxes.

(13) Energy Savings Agreement

In 1984 and 1987, the Hospital signed agreements which provide for the design, installation, and maintenance of energy-saving programs and equipment to the Hospital. Payment for the program is based on energy savings realized during the ten-year period the program is in place. The Hospital may terminate the agreement at any time by purchasing the equipment for the greater of its fair market value or a termination value as follows:

Year ending June 30:	Termination value
1991	\$ 257,000
1992	197,000
1993	137,000
1994	77,000
1995	17,000

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(14) Going Concern Issues

For the fiscal years ending 1990 and 1989, the Hospital incurred operating losses of \$2,391,316 and \$2,490,743, respectively. The Hospital's equity has decreased by \$1,593,487 in that two-year period as the operating losses have been partially funded by \$3,192,178 in net disbursements made for the Hospital by the City of Peabody.

Management has, in the past few years, undertaken action to reduce operating costs. However, management believes that future reductions in operating costs are not probable and, given the current regulatory environment, the operating losses are expected to continue into the foreseeable future. Accordingly, management believes that the Hospital, as a department of the City, will need either the ongoing financial support of the City, or will need to merge or affiliate with another health care institution. The City has agreed to fund the Hospital through September 30, 1991.



Peat Marwick

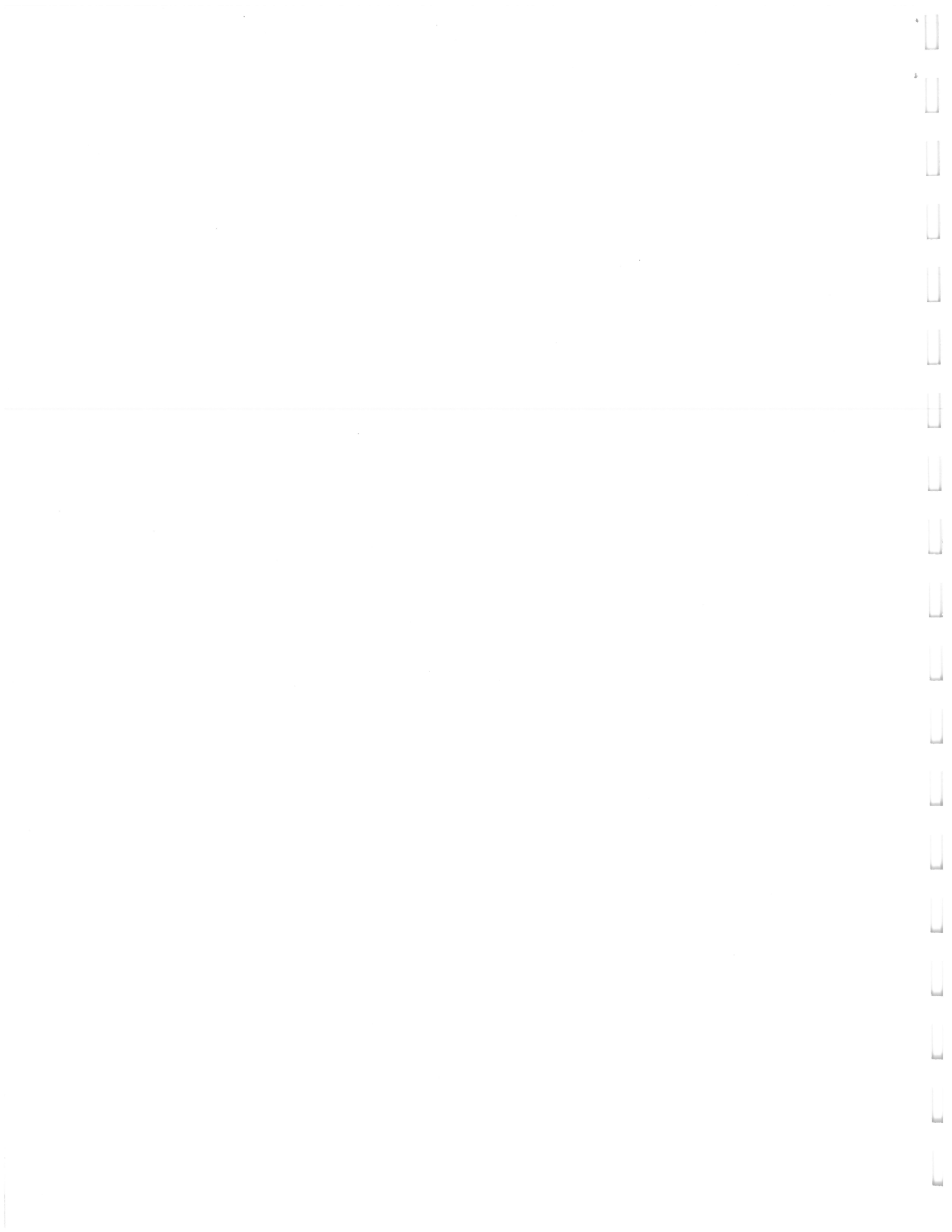
Certified Public Accountants

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Financial Statements

June 30, 1991 and 1990

(With Independent Auditors' Report Thereon)



Independent Auditors' Report

The Board of Trustees
Josiah B. Thomas Hospital:

We have audited the accompanying balance sheets of Josiah B. Thomas Hospital (a department of the City of Peabody, Massachusetts) as of June 30, 1991 and 1990, and the related statements of revenues and expenses, changes in fund balances, and cash flows of general funds for the years then ended. These financial statements are the responsibility of Josiah B. Thomas Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 11 to the financial statements, the Hospital does not provide for pension costs as required by generally accepted accounting principles.

In our opinion, except for the effect on the financial statements of the failure to provide for pension costs as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Josiah B. Thomas Hospital at June 30, 1991 and 1990, and the results of its operations, the changes in its fund balances, and the cash flows of its general funds for the years then ended in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Josiah B. Thomas Hospital will continue as a going concern. As discussed in Note 16 to the financial statements, the Hospital's recurring losses from operations raise substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to this matter are described in Note 16. The financial statements do not include any adjustments relating to the recoverability and classification of reported asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

KPMG Peat Marwick

August 23, 1991





JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Balance Sheets

June 30, 1991 and 1990

Assets

<u>General Funds</u>	<u>1991</u>	<u>1990</u>
Current assets:		
Cash (note 4)	\$ 871,103	690,629
Patient accounts receivable (note 15)	7,700,628	6,381,282
Less:		
Estimated contractual allowances	2,115,811	1,641,425
Allowance for uncollectible accounts	<u>2,004,625</u>	<u>1,701,226</u>
	<u>3,580,192</u>	<u>3,038,631</u>
Inventories of drugs and supplies	70,595	65,715
Prepaid expenses	26,303	16,096
Estimated final settlements due from third-party payors	<u>392,071</u>	<u>593,900</u>
Total current assets	<u>4,940,264</u>	<u>4,404,971</u>
Assets limited as to use:		
By Board, designated for plant replacement or expansion (note 5)	<u>9,347</u>	<u>14,046</u>
Total assets limited as to use	<u>9,347</u>	<u>14,046</u>
Property, plant and equipment, net (note 6)	<u>3,128,336</u>	<u>3,033,825</u>
Total general funds	\$ <u>8,077,947</u>	<u>7,452,842</u>

Restricted Funds

Endowment funds:		
Investments (note 5)	\$ <u>72,654</u>	<u>37,185</u>
Total endowment funds	\$ <u><u>72,654</u></u>	<u><u>37,185</u></u>

See accompanying notes to financial statements.



Liabilities and Fund Balances

<u>General Funds</u>	<u>1991</u>	<u>1990</u>
Current liabilities:		
Current installment of loans payable (note 8)	\$ 107,050	107,064
Current installments of obligations under capital leases (note 9)	99,278	96,207
Accounts payable (note 7)	1,303,868	1,058,312
Accrued expenses	52,559	69,569
Accrued wages, compensated absences and benefits	680,747	640,242
Estimated final settlements due to third-party payors	1,763,782	1,913,400
Total current liabilities	4,007,284	3,884,794
Loans payable, excluding current installments (note 8)	-	107,050
Obligations under capital leases, excluding current installments (note 9)	20,528	110,993
Total liabilities	4,027,812	4,102,837
Commitments and contingencies (notes 9, 10 and 14)		
Fund balances:		
General	1,080,199	723,448
Board designated	9,347	14,046
Plant	2,960,589	2,612,511
Total fund balances	4,050,135	3,350,005
Total general funds	\$ 8,077,947	7,452,842

Restricted Funds

Endowment funds:		
Fund balance	\$ 72,654	37,185
Total endowment funds	\$ 72,654	37,185



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Revenues and Expenses

Years ended June 30, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Net patient service revenue (notes 2 and 3)	\$ 16,355,140	14,665,772
Other operating revenue	173,276	114,693
Total operating revenue	<u>16,528,416</u>	<u>14,780,465</u>
Operating expenses:		
Salaries and wages	8,275,943	7,891,682
Supplies and general services	4,704,601	4,154,669
Physicians' fees	1,805,934	1,511,576
Operation of plant	538,855	514,088
Fringe benefits	2,046,492	1,684,865
Health insurance for retired employees	474,719	360,000
Interest	18,664	26,044
Provision for uncollectible accounts	1,032,228	596,510
Depreciation and amortization	514,120	432,347
Total operating expenses	<u>19,411,556</u>	<u>17,171,781</u>
Loss from operations	(2,883,140)	(2,391,316)
Nonoperating loss	<u>(799)</u>	<u>(17,789)</u>
Excess of expenses over revenues	\$ <u>(2,883,939)</u>	<u>(2,409,105)</u>

See accompanying notes to financial statements.

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Changes in Fund Balances

Years ended June 30, 1991 and 1990

<u>General Funds</u>	<u>1991</u>	<u>1990</u>
Balance at beginning of year	\$ 3,350,005	4,700,651
Excess of expenses over revenues	(2,883,939)	(2,409,105)
Donation of equipment	384,199	22,700
Excess of City disbursements made for Hospital over Hospital receipts deposited with City	<u>3,199,870</u>	<u>1,035,759</u>
Balance at end of year	\$ <u>4,050,135</u>	<u>3,350,005</u>

<u>Restricted Funds</u>		
Balance at beginning of year	\$ 37,185	58,019
Dividend income	35,469	-
Transfer of resources restricted by donors for operating and other purposes, net	<u>-</u>	<u>(20,834)</u>
Balance at end of year	\$ <u>72,654</u>	<u>37,185</u>

See accompanying notes to financial statements.

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Statements of Cash Flows of General Funds

Years ended June 30, 1991 and 1990

	<u>1991</u>	<u>1990</u>
Cash flows used in operating activities:		
Excess of expenses over revenues	\$ (2,883,939)	(2,409,105)
Adjustments to reconcile excess of expenses over revenues to net cash used in operating and nonoperating activities:		
Depreciation and amortization	514,120	432,347
Deferred revenue	(500,000)	176,000
Changes in assets and liabilities:		
Patient accounts receivable	(541,561)	43,888
Inventories of drugs and supplies	(4,880)	3,523
Prepaid expenses	(10,207)	(16,096)
Estimated final settlements due from third-party payors	201,829	373,800
Accounts payable	245,556	(11,788)
Accrued expenses	(17,011)	(14,938)
Accrued wages, compensated absences and benefits	40,505	(31,565)
Estimated final settlements due to third-party payors	<u>350,382</u>	<u>646,400</u>
Net cash used in operating and nonoperating activities	<u>(2,605,206)</u>	<u>(807,534)</u>
Cash flows used in investing activities:		
Additions to property, plant and equipment	(224,431)	(31,538)
Decrease in assets whose use is limited	<u>4,699</u>	<u>9,639</u>
Net cash used in investing activities	<u>(219,732)</u>	<u>(21,899)</u>
Cash flows from financing activities:		
Principal payments on loans payable	(107,064)	(119,387)
Principal payments on capital lease obligations	(87,394)	(90,370)
Excess of City disbursements made for Hospital over Hospital receipts deposited with City	<u>3,199,870</u>	<u>1,035,759</u>
Net cash provided by financing activities	<u>3,005,412</u>	<u>826,002</u>
Net increase (decrease) in cash	180,474	(3,431)
Cash at beginning of year	<u>690,629</u>	<u>694,060</u>
Cash at end of year	\$ <u><u>871,103</u></u>	<u><u>690,629</u></u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ <u><u>18,305</u></u>	<u><u>26,584</u></u>
Donated equipment received	\$ <u><u>384,199</u></u>	<u><u>22,700</u></u>

See accompanying notes to financial statements.



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

June 30, 1991 and 1990

(1) Summary of Significant Accounting Policies

- (a) Josiah B. Thomas Hospital (Hospital) is a department of the City of Peabody, Massachusetts. As a department of the City, all receipts of the Hospital are remitted to the general accounts of the City and all expenditures relative to the Hospital are made by the City. As a result of this procedure, any excess of Hospital revenues over Hospital costs would automatically revert to the general accounts of the City, and any excess of Hospital costs over Hospital revenues would automatically be paid by the City. Therefore, the accompanying financial statements may not present the same condition which would have existed if the Hospital had financial autonomy.
- (b) Funds restricted by outside sources are so indicated and are distinguished from general funds on which the donors place no restrictions or which arise as a result of the operation of the Hospital for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted.
- (c) The general fund balance reflects the accumulated results of operations, net of the accumulated cash receipts deposited with the City, and the accumulated cash disbursements made by the City in connection with Hospital expenditures. This fund balance represents the City's investment in the Hospital.
- (d) For separate reporting purposes, the Hospital has adopted the accrual method of accounting. Adjustments have been made for purposes of these financial statements to reflect accrual basis items, principally patient receivables, inventories and accrued expenses. An adjustment has also been made to present as a liability of the Hospital general obligation bonds of the City, the proceeds of which were used for capital additions of the Hospital.
- (e) Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are made.

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

- (f) Patient service revenue received under cost reimbursement agreements is subject to audit and retroactive adjustment by third-party payors. Provisions for estimated retroactive adjustments from Medicare, Medicaid and Blue Cross are provided in the period the related services are rendered.
 - (g) Investments in marketable securities purchased by the Hospital are stated at the lower of cost or market. Investment income and realized gains (losses) on sales of general fund investments are recorded as nonoperating revenue. Investment income from restricted fund investments is recorded as nonoperating revenue when unrestricted by the donor and as an increase to the restricted fund balance when restricted by the donor.
 - (h) Property, plant and equipment is recorded at cost. Property held under capital leases is recorded at the present value of the minimum lease payments. Donated property, plant and equipment is recorded at fair market value at date of donation, which then is treated as cost. Assets are depreciated on the straight-line basis over their estimated useful lives using the guidelines established by the American Hospital Association. Property held under capital leases is depreciated over the term of the lease.
 - (i) Inventories of drugs and supplies are stated at the lower of cost (first-in, first-out) or market.
 - (j) Certain reclassifications were made to properly reflect prior year financial statements for comparative purposes.
- (2) Third Party Reimbursement

Effective July 1, 1983, Massachusetts payment legislation Chapter 372 was enacted to govern the establishment of hospital charges and government rates of payment. Chapter 372 established a prospective payment system for substantially all payors and adopted the Blue Cross basis of payment as the basis for determining the approved level of gross patient service revenue and Medicaid and Medicare rates of payment. Effective July 1, 1986, the payment system established pursuant to the Chapter 372 legislation was amended for a two-year period by Chapter 574. The two principal modifications were the exclusion of Medicare reimbursement from the Massachusetts system and the establishment of an uncompensated care pool to uniformly fund free care and bad debts incurred by hospitals. Effective July 1, 1988, the

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

Massachusetts legislature enacted Chapter 23 to govern hospital charges through June 30, 1992. The system established under Chapter 23 continues the methodology established under Chapters 372/574 with some modifications including a discontinuance of the productivity factors after fiscal 1989 which reduced hospital payments under Chapters 372/574; greater incentives for changes in volume and case mix and a rebasing of the fiscal 1987 inpatient volume allowance; and the establishment of a statewide cap on the amount of uncompensated care costs that can be recovered through hospital charges.

For fiscal 1991 and 1990, pursuant to Hospital Agreements HA-31, Blue Cross paid the Hospital a proportionate share of the substantially fixed Maximum Allowable Costs ("MAC") as well as their share of the statewide uniform uncompensated care allowance. The MAC is based upon base year (year ending June 30, 1982) patient care costs with annual adjustments for inflation, an add-on to inflation, and changes in volume and case mix and with certain items, principally depreciation, interest and malpractice insurance, reimbursed on a cost basis outside the MAC. The current agreement, HA-31, expires on June 30, 1992. In fiscal 1988, the Blue Cross basis of payment was reduced by a 6% productivity factor as mandated by Chapters 372/574. This reduced basis of payment served as the base for determining the fiscal 1991 and 1990 Blue Cross basis of payment.

Under Chapters 372/574, Medicaid reimbursement is based upon Medicaid's proportionate share of the Blue Cross MAC basis of payment reduced by a fixed discount to maintain Medicaid's discount at the fiscal 1982 level. In fiscal 1988, the basis of payment for Medicaid was reduced by an 8% productivity factor as mandated by Chapters 372/574. Under Chapter 23, Medicaid reimbursement in fiscal 1991 and 1990 was based upon approved charges less a discount which reflected the fiscal 1988 relationship between Medicaid reimbursement and approved charges.

The Hospital is reimbursed for services during the year at interim rates by Blue Cross, Medicaid and Medicare with differences between Hospital charges and estimated final reimbursement recorded as contractual adjustments.

Also under Chapter 23 and Chapters 372/574, gross patient service revenue is limited to a maximum level based upon the Blue Cross basis of payment. Any revenue generated in excess of the approved level in one year results in the reduction of approved gross patient service revenue in the succeeding year. The excess revenue is deferred by the Hospital.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

The Hospital is required to prepare and file certain compliance reports pursuant to the Blue Cross agreement, Chapters 23 and 372/574, and Medicare regulations. The Hospital is current with respect to all compliance filings. Differences between estimated and actual final settlements are recorded as contractual adjustments in the year determined. The Hospital recognized net favorable adjustments of \$312,000 in fiscal year 1991 and net unfavorable adjustments of \$820,000 in fiscal year 1990 as a result of final settlements and other prior year adjustments. These adjustments are reflected in the current year statement of revenues and expenses. Final settlements have been determined with Blue Cross, Medicare and Medicaid through 1985, 1987 and 1983, respectively.

(3) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies and equivalent service statistics. These amounts are included within net patient service revenue on the statement of revenues and expenses.

(4) Cash

A reconciliation of the June 30, 1991 and 1990 cash balances as reflected in the Hospital's records to the balances in the accompanying balance sheets follows:

	<u>1991</u>	<u>1990</u>
Expenses incurred during the fiscal year paid after year-end	\$ 869,603	689,129
Cash on hand	<u>1,500</u>	<u>1,500</u>
Balance per balance sheets	\$ <u>871,103</u>	<u>690,629</u>

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(5) Investments

Cost and market values of investments as of June 30, 1991 and 1990 are summarized as follows:

	<u>1991</u>		<u>1990</u>	
	<u>Cost</u>	<u>Quoted Market</u>	<u>Cost</u>	<u>Quoted Market</u>
<u>General:</u>				
Cash in savings accounts and certificates	\$ <u>9,347</u>	<u>9,347</u>	<u>14,046</u>	<u>14,046</u>
<u>Restricted:</u>				
Investments held by trustee:				
Bonds	21,000	13,950	21,000	11,800
Stocks	<u>51,654</u>	<u>130,494</u>	<u>16,185</u>	<u>130,554</u>
	<u>72,654</u>	<u>144,444</u>	<u>37,185</u>	<u>142,354</u>
	\$ <u>82,001</u>	<u>153,791</u>	<u>51,231</u>	<u>156,400</u>

(6) Property, Plant and Equipment

Property, plant and equipment by major category is as follows at June 30, 1991 and 1990:

	<u>Cost</u>	
	<u>1991</u>	<u>1990</u>
<u>Depreciable assets:</u>		
Land improvements	\$ 16,866	16,866
Buildings	3,716,152	3,647,991
Fixed equipment	1,214,878	1,173,049
Movable equipment	<u>2,012,904</u>	<u>1,801,627</u>
	6,960,800	6,639,533
Less: accumulated depreciation	<u>3,928,464</u>	<u>3,701,708</u>
	3,032,336	2,937,825
<u>Nondepreciable assets:</u>		
Land	<u>96,000</u>	<u>96,000</u>
	\$ <u>3,128,336</u>	<u>3,033,825</u>

The ranges of depreciable lives of land improvements, buildings and equipment are 10-20, 5-50 and 8-20 years, respectively.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(7) Accounts Payable

A reconciliation of the accounts payable balance reflected in the Hospital's records to the balances per the accompanying balance sheets at June 30, 1991 and 1990 follows:

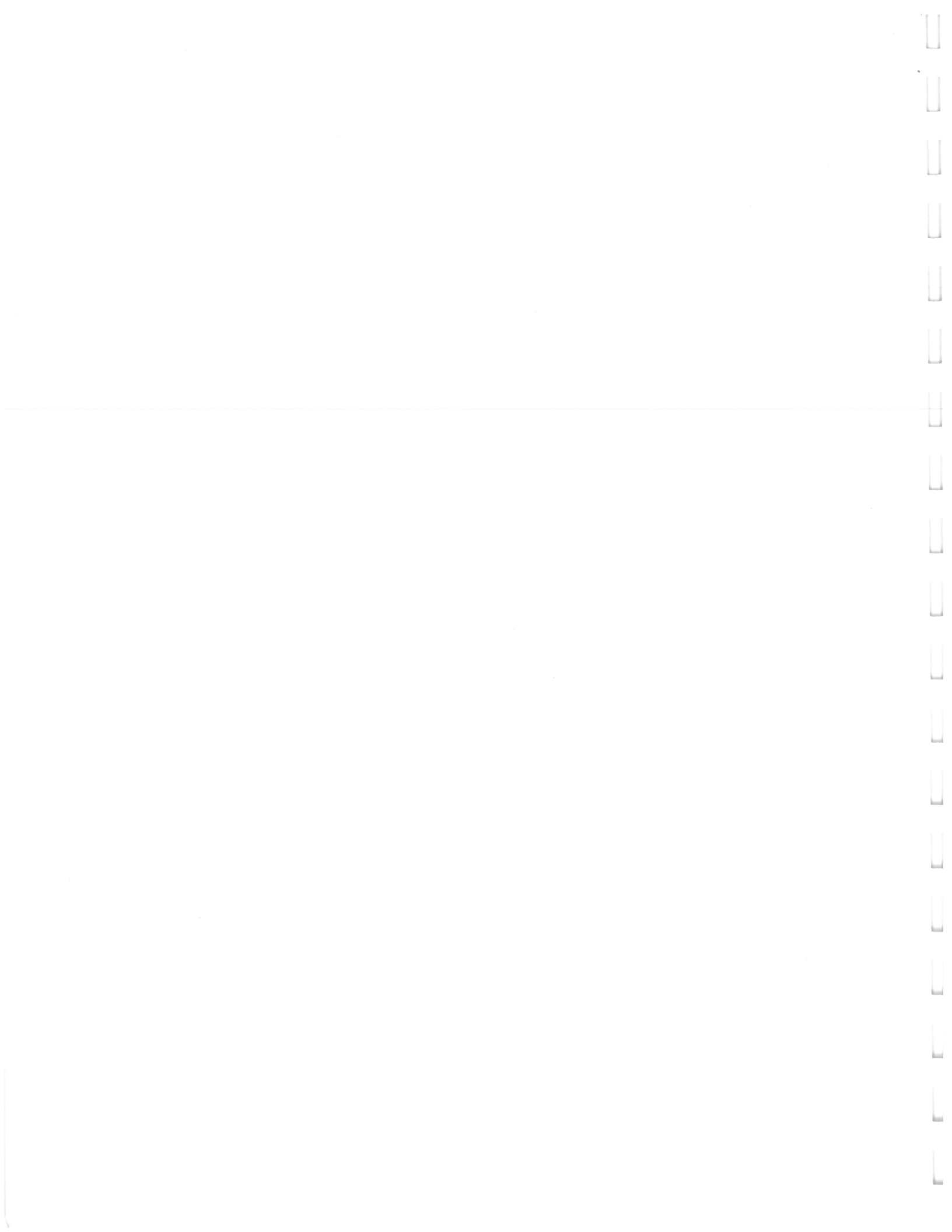
	<u>1991</u>	<u>1990</u>
Bills outstanding at June 30 per Hospital's records	\$ 36,575	22,679
Bills recorded as paid by Hospital prior to June 30 for which the checks were not paid by the City until after June 30	869,603	689,129
Accounts receivable credit balances reclassified to accounts payable	<u>397,690</u>	<u>346,504</u>
Balance per balance sheets	\$ <u>1,303,868</u>	<u>1,058,312</u>

(8) Loans Payable

Loans payable consisted of the following at June 30, 1991 and 1990:

	<u>1991</u>	<u>1990</u>
General obligation bonds:		
Building municipal bonds, 4.5%, payable in annual installments of \$100,000 through December 1991	\$ 100,000	200,000
Hospital bonds, 6.75%, payable in annual installments of \$19,387 through 1990 with declining payments through May 1992	<u>7,050</u>	<u>14,114</u>
Total loans payable	107,050	214,114
Less current installments	<u>107,050</u>	<u>107,064</u>
Long-term loans payable	\$ <u>-</u>	<u>107,050</u>

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(9) Commitments

The Hospital leases medical equipment under terms of five-year capital leases. The future minimum lease payments under noncancelable leases are as follows:

Year ending June 30:	
1992	\$ 103,933
1993	18,689
1994	<u>3,250</u>
Total minimum lease payments	125,872
Less amount representing interest	<u>6,066</u>
Present value of minimum lease payments	119,806
Less current capital lease obligations	<u>99,278</u>
Obligations under capital leases, long-term	\$ <u>20,528</u>

Property held under capital leases included in property, plant and equipment is as follows at June 30, 1991:

Medical equipment	\$ 443,419
Less accumulated amortization	<u>381,220</u>
	\$ <u>62,199</u>

(10) Contingencies

The Hospital maintains malpractice insurance coverage through an occurrence basis insurance policy. The occurrence basis policy insures incidents that occur during the period of coverage although the claim may be filed in a subsequent period.

Under the terms of the legislation which created the Joint Underwriting Association of Massachusetts, the Hospital is subject to pro rata assessment for any deficit sustained by the insurer (Joint Underwriting Association of Massachusetts). To date, no amounts have been assessed. Management believes that there will be no retroactive premiums due that would have a material impact on the financial position of the Hospital.

(Continued)

JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(11) Pension Plan

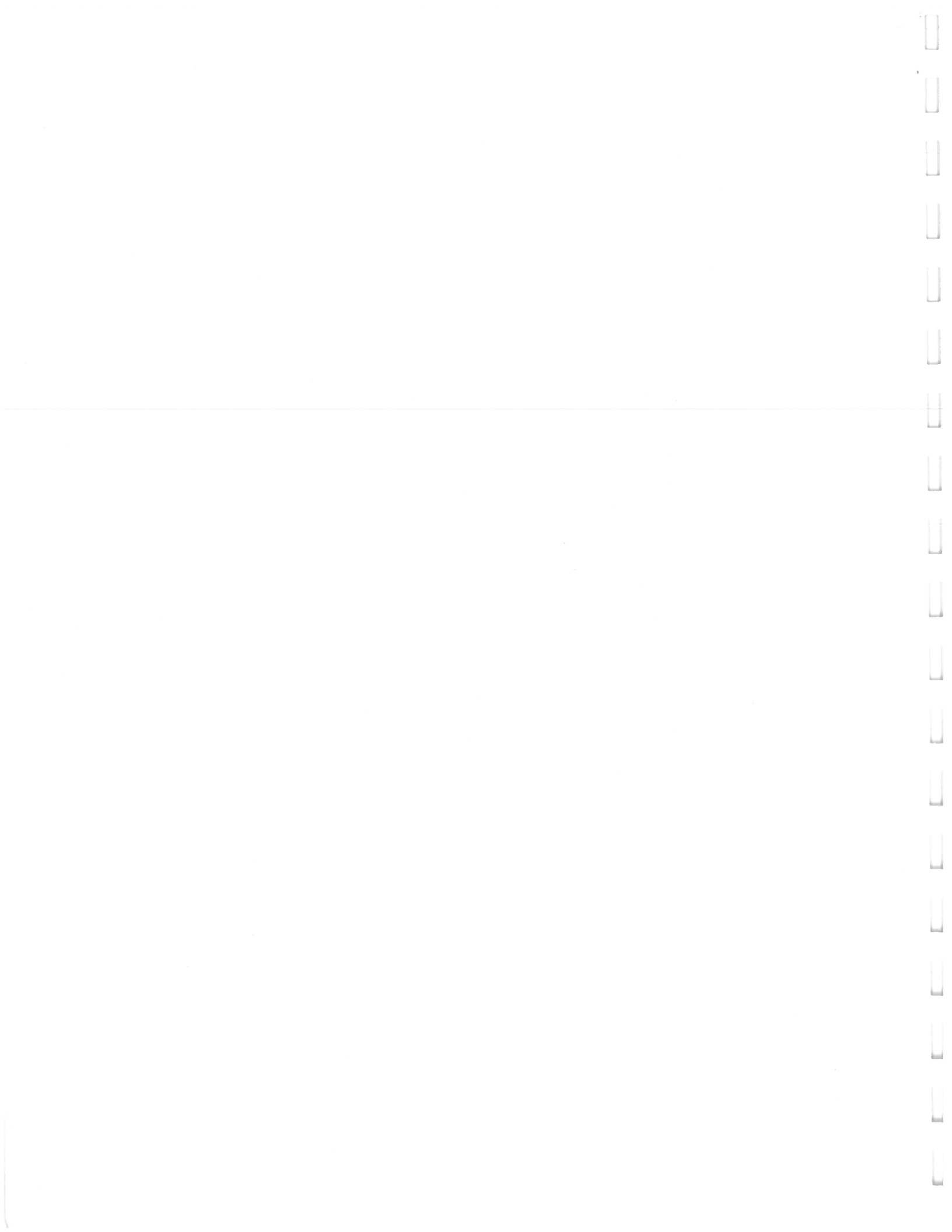
Hospital employees participate in the City's contributory retirement system that is partially funded by employee contributions. The retirement system covers all municipal employees, except school teachers, whose pensions are paid by the Commonwealth's Public Employee Retirement Association (PERA) of Massachusetts. The Hospital's contribution for pension expense was \$616,116 and \$554,086 for the years ended June 30, 1991 and 1990, respectively. The expense is determined on a pay-as-you-go basis by the Commonwealth's Division of Insurance and is based on estimates of pensions actually payable during an accounting period including the City's allocation of the retirement system's total operating expense. Under generally accepted accounting principles (GAAP), annual pension expense is a measure of the future retirement benefits earned by employees during an accounting period. It is probable that annual provisions for pension expense under GAAP (based upon an actuarial valuation of the plan and amortization of the unfunded past service cost over a reasonable future period) would be substantially higher than annual amounts provided under the present pay-as-you-go method.

Accumulated plan benefits and the net assets of the City's retirement system as of July 1, 1987 (latest date such information is available) are presented below:

Actuarial present value of accumulated plan benefits (July 1, 1987):	
Vested (ancillary benefits are not considered vested)	\$ 50,296,000
Nonvested	14,950,400
	<u>\$ 65,246,400</u>
Net assets available for benefits	<u>\$ 22,200,100</u>

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8%.

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(12) Interdepartment Charges

The Hospital's financial statements include certain direct payments made by the City of Peabody on behalf of the Hospital such as loan principal and interest payments, building improvements, pension payments, insurance payments and employee benefits. These payments amounted to \$3,199,870 and \$1,035,759 for the years ended June 30, 1991 and 1990, respectively. Other services which are provided to the Hospital by the City without charge are:

- Processing of cash receipts and cash disbursements
- Reconciliation of bank accounts

The costs incurred by the City in connection with these services are not reflected in the financial statements of the Hospital.

(13) Federal Income Taxes

The Hospital is a department of a municipality and is therefore exempt from federal income taxes.

(14) Energy Savings Agreement

In 1984 and 1987, the Hospital signed agreements which provide for the design, installation and maintenance of energy-saving programs and equipment to the Hospital. Payment for the program is based on energy savings realized during the ten-year period the program is in place. The Hospital may terminate the agreement at any time by purchasing the equipment for the greater of its fair market value or a termination value as follows:

Year ending June 30:	Termination value
1992	\$ 197,000
1993	137,000
1994	77,000
1995	17,000

(Continued)



JOSIAH B. THOMAS HOSPITAL
(A Department of the City of Peabody, Massachusetts)

Notes to Financial Statements

(15) Business and Credit Concentrations

The Hospital provides health care services through its inpatient and outpatient care facilities. The Hospital grants credit to patients, substantially all of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, health maintenance organizations and commercial insurance policies).

At June 30, 1991, the Hospital had gross accounts receivable from the Federal Government (Medicare) of \$3,739,443 and from the State of Massachusetts (Medicaid) of \$695,824.

(16) Going-concern Issues

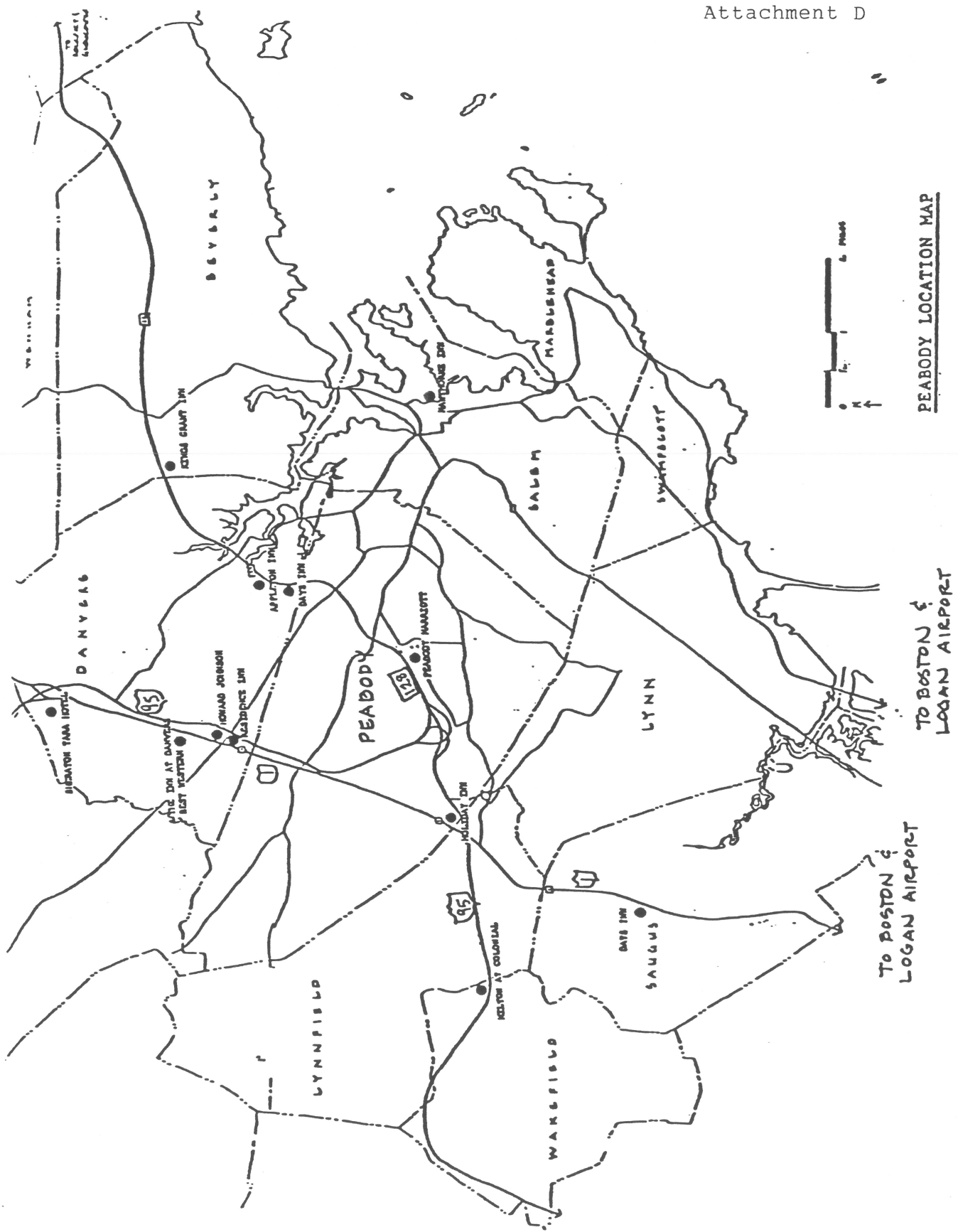
The Hospital has incurred significant operating losses for the past two years. These operating losses have been partially funded by net payments made on the Hospital's behalf by the City of Peabody. Management has, in the past few years, undertaken certain actions to reduce operating costs. However, management believes that the Hospital, as a department of the City, will need either to continue to receive the ongoing financial support of the City or to merge or affiliate with another health care institution.



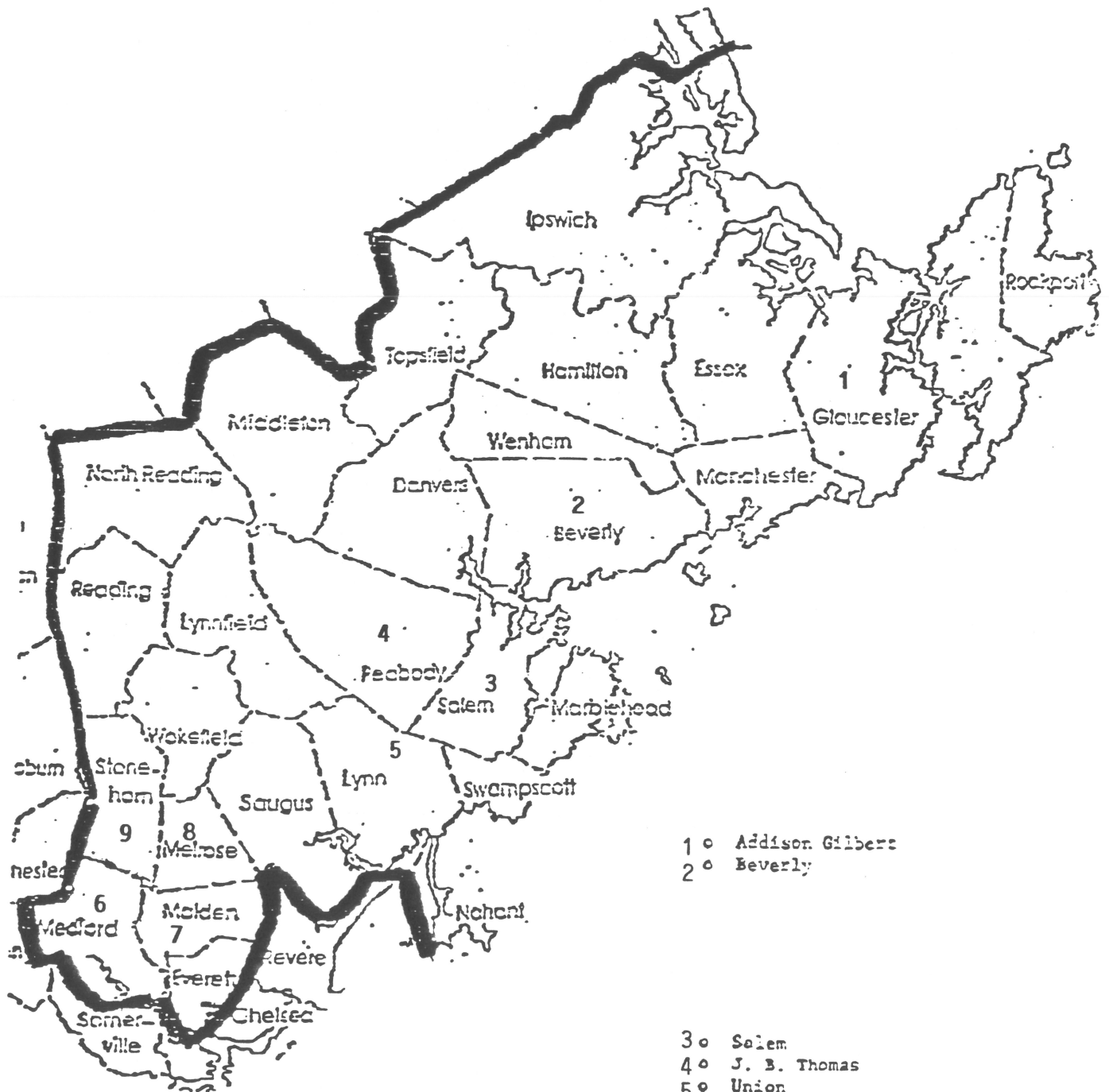
Attachment D

Maps







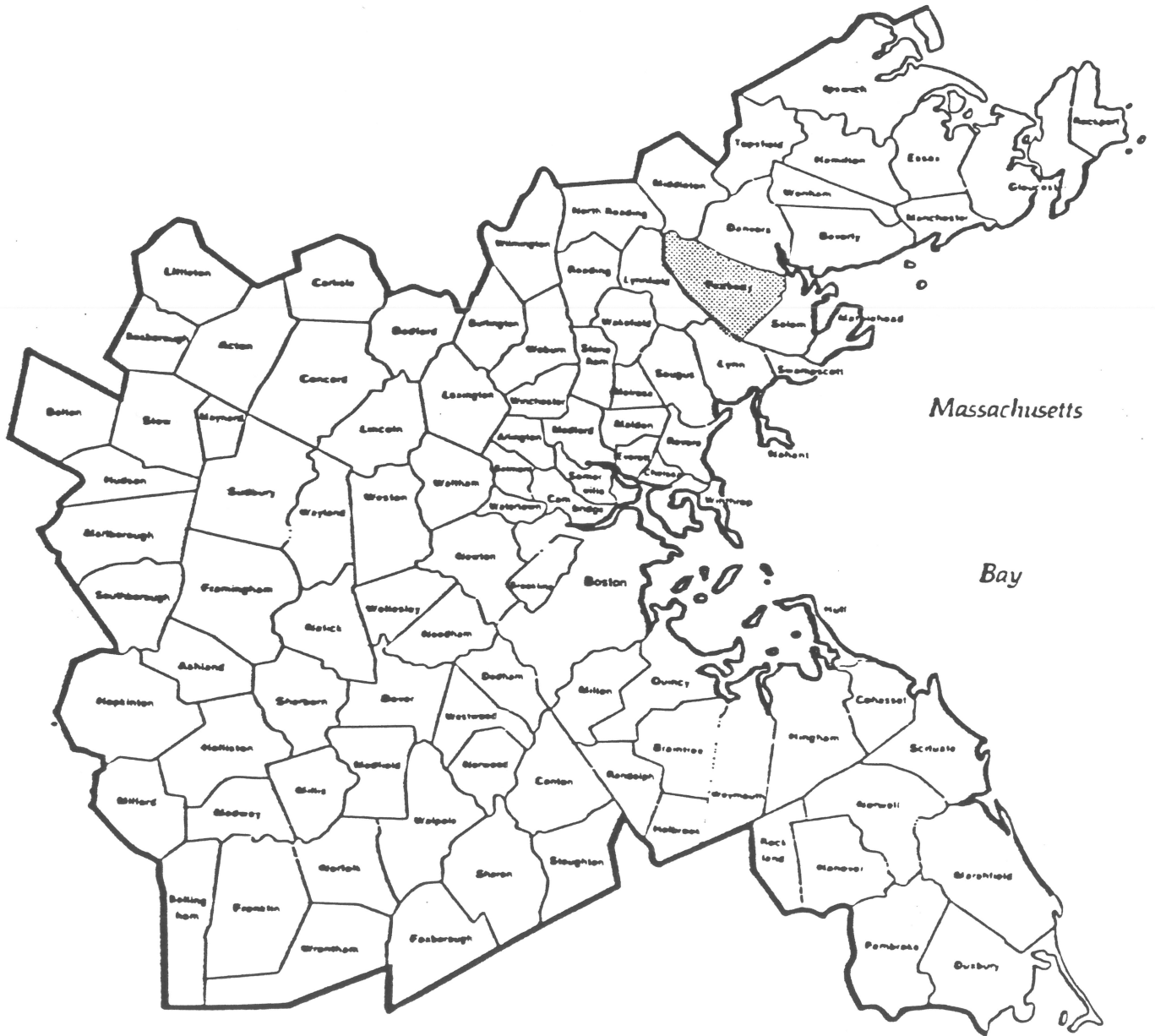


- 1 o Addison Gilbert
- 2 o Beverly

- 3 o Salem
- 4 o J. B. Thomas
- 5 o Union

- 6 o Lawrence Memorial
- 7 o Malden
- 8 o Melrose-Wakefield
- 9 o New England Memorial



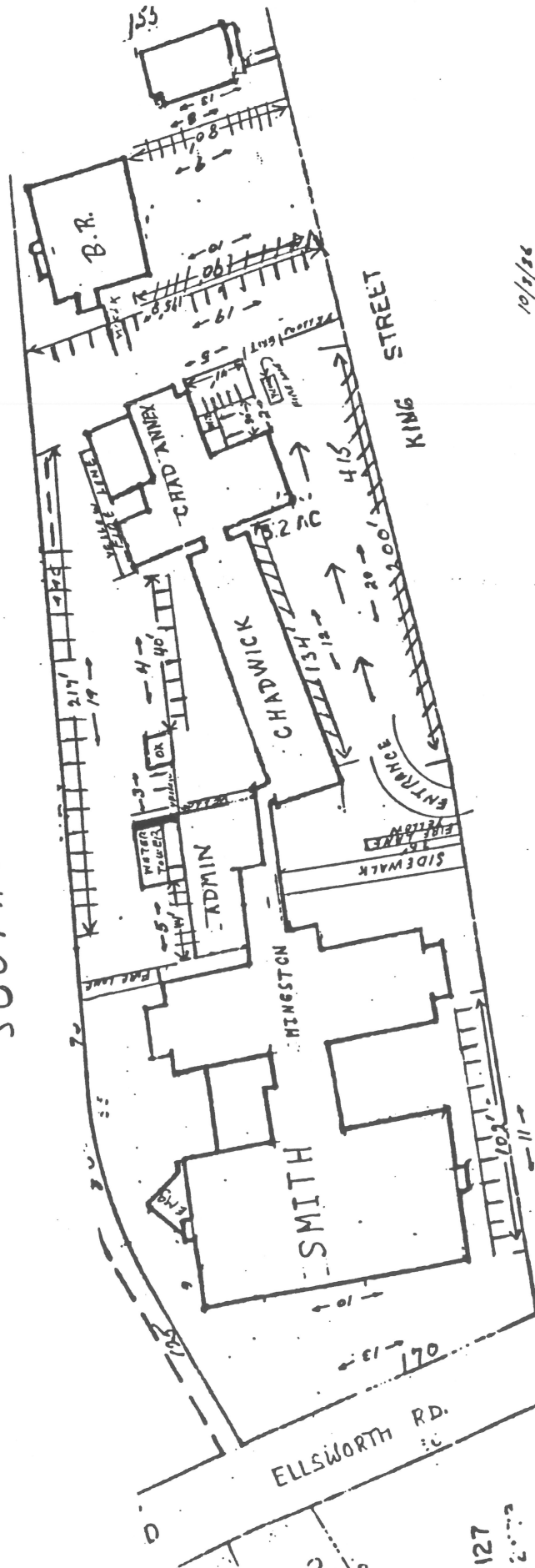




Attachment E

Site Plan

SOUTHWICK TER.



10/19/98
Parking Spaces 163

